



Financing and Forestry

Investigation and Analysis of Financing Options for Forest Technology Imports from Finland to Argentina

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<p>Abstract</p> <p>The major impediment for the growth of Inderfor S.A, an Argentinean forestry intermediary company, is their clients' poor access to financing. Latin America is gaining ground in the forest industry, opening opportunities for Finnish forest machinery manufacturers, but the Argentinean operators do not have the sufficient means to fund such technological investments.</p> <p>To provide assistance and information to deal with the current situation, the research objectives aimed at offering Inderfor with a scan over viable financing solutions by presenting some Argentinean, Finnish and international financing institutions, both public and private, and banks. A secondary objective was to find specific financing solutions that were carried into practice through three varying study cases.</p> <p>The study has a descriptive method approach. Actual investigation was conducted by gathering information directly from the different financing institutions mainly through personal communication, and by using already existing data. Solutions and results to the different study cases were implemented by utilizing the gathered data, and by cooperating with the study case companies.</p> <p>It can be concluded that each specific client case, future or current, requires separate evaluation on applicable financing solutions. General awareness of what services the global financial markets provide, however, facilitates and shortens the evaluation process. A major task was to provide Inderfor S.A. with this awareness: Inderfor S.A. is to take advantage of the information for the benefit of their business partners.</p>		
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CONTENTS

1 INTRODUCTION.....	3
1.1 Thesis Objectives	3
1.2 Method Description.....	5
1.3 List of Abbreviations.....	7
2 THE BIG PICTURE – SEEING THE FOREST FOR THE TREES	9
2.1 Key Terminology and Definitions.....	9
2.2 Access to Credit in Argentina	14
2.3 Current Day Scenario for Forestry Industry in Argentina	17
2.4 Specific Challenges Faced by Inderfor S.A.	22
3 BANKS AS A SOURCE OF FINANCING.....	24
3.1 Relationship Banking and SME’s	24
3.2 Banks in Argentina.....	25
3.2.1 Banco de la Nación Argentina – an example of a public bank in Argentina	27
3.2.2 BBVA Banco Francés S.A. – an example of a private international bank	32
3.3 Banks In Finland	35
4 PUBLIC FINANCING INSTITUTIONS AS A SOURCE OF FINANCING ...	39
4.1 FONTAR – Argentinean Technological Fund	39
4.1.1 Projects eligible for FONTAR financing and project phases	43
4.1.2 Types of financing.....	45
4.2 Finnfund	50
4.3 Finnpartnership	56
4.4 Finnvera	59
4.5 Comparing the public financing institutions	64
5 COMMERCIAL FINANCING COMPANIES AS A SOURCE OF FINANCING.....	66
5.1 Coface	66
5.2 Other	68
6 STUDY CASES – FINANCING FOR VARYING NEEDS	70
6.1 Harvester Head.....	70
6.2 Sawmill	75
6.3 Pellet Plant Project.....	78
7 CONCLUSIONS AND FUTURE DISCUSSIONS.....	80
REFERENCES	87
APPENDICES	92
Appendix 1. Documents for credit status analysis required by Banco Francés	92
Appendix 2. Financing options for the Harvester Head case, and application details.....	93
Appendix 3. Pre-feasibility study for Pellet Plant case study	95

FIGURES

FIGURE 1. Cultivated Forests in Argentina 1997-2005	18
FIGURE 2. Forest Machinery Imports to Argentina 1997-2006	20
FIGURE 3. Structure of the Argentinean Ministry of Education, Science and Technology	40
FIGURE 4. FONTAR Financed Projects 2002-2006	42
FIGURE 5. Project Phases in FONTAR financing	44
FIGURE 6. Finnfund financing by target location 2007	54
FIGURE 7. Finnfund financing by sector 2007	55
FIGURE 8. Finnvera´s Foreign Risk Taking 2007	61

TABLES

TABLE 1. Top Ten Banks in Argentina	26
TABLE 2. Import financing by Banco de la Nación	28
TABLE 3. Financing “Línea 400” by BNA	29
TABLE 4. Financing Productive Investments by BNA	30
TABLE 5. Example of costs for traditional leasing by Banco Francés	34
TABLE 6. Example of costs for Maxi Canon Leasing by Banco Francés	34
TABLE 7. FONTAR financing by Banco Francés	35
TABLE 8. Types of Financing for Public Calls	46
TABLE 9. Types of Financing for Permanent Initiative Projects	49
TABLE 10. Finnpartnership grant coverage amounts	58
TABLE 11. Comparing public financing institutions	65

1 INTRODUCTION

1.1 Thesis Objectives

While performing my internship period in Argentina, I decided to contact different Finnish companies, or companies tightly connected with Finnish trade in order to discover a topic and a development project for my final thesis. Finally, with Inderfor S.A. (from now on “Inderfor”) we found a development topic that would both match some of the company’s and their customers’ current needs, as well as suit my professional learning. In addition, having lived in Argentina for a longer time, I have obtained a perception of the local culture, business methods and the potential the country holds. I am also aware of the challenges the local economic and business environment pertain – thus I wanted to, on my behalf, bring closer the commercial cooperation between the two countries.

Inderfor has multiple years of experience with the Finnish-Argentinean trade in the forestry sector. The company specializes in the transfer of forest technology, know-how and investment from Finland to Argentina, Uruguay and Brazil. To clarify, Inderfor directly does not operate in the forestry sector, but is a forestry consulting company and an intermediary between the Finnish forest machinery manufacturers and the local buyers, forestry operators and forest owners in Latin America. To that end, the forest industry in general is experiencing a fast growth period in Latin America. However, one of the main obstacles for Inderfor’s growth currently is their clients’ poor access to financing and credits in these countries, especially in Argentina where most of their clients are. Multiple factors, which will be presented further on, contribute to the several problems Inderfor and their clients face, but a clear need exists for a more profound investigation on current financing solutions. According to Darío Rodríguez, Inderfor’s founder and Managing Director, the company’s current resources and mostly time restrictions do not allow them to perform a full-scale research on the topic, and therefore an external research is a must – so our cooperation began.

The intention of the thesis is to provide a scan over different financial organizations and the services they provide – all in the framework of the environment Inderfor operates in. More specifically, a few study cases will serve as benchmark situations to provide an example base for the future and to also bring a real-life factor into the

work. In addition, to gain an understanding of the operational field, an introduction to the forest and financial industries in Argentina, and to some extent those of Finland, is provided, as well as a view of the future projections of the forest industry is portrayed.

The study cases represent real life situations that Inderfor and their customers in Argentina face on a daily basis. All the study cases presented are actual projects performed with a source of financing to be found. Most of Inderfor's local buyers are in need of financing for the purchase of forest machinery of some type, mainly harvesters and harvester heads, chippers, crushers etc. The first study case in chapter 6.1 Harvester Head includes the purchase and import of a new harvester head and a used harvester base machine, and the financing solution for the corresponding purchase. This sort of scenario is the most common one for Inderfor and their customers, with different types of variations as to the machinery type, condition and price, but in general the common factor between these types of purchases is the smaller amount to be financed: in the Harvester Head case the company needs to finance a purchase of approximately USD 260 000. The second study case, Sawmill, falls under the above situation, with the rare exception that the company purchasing the saw mill has obtained financing from Finland. The objective of this study case is to examine the success of the operation, and possibly suggest other, more viable financing options. With respect to these types of cases mentioned above, the thesis presents mostly Argentinean Financing Institutions and the services they provide. Finally, the third study case, Pellet Plant Project, is a larger scale project that includes installing multiple Pellet Plants in Argentina and possibly Uruguay. The Finnish pellet plant manufacturer is the main solicitor for financing, and also acts as the main implementer of the project. With regards to this case, mainly Finnish financing institutions and their services are presented.

To meet the thesis objectives, this work aims at answering specific research questions on two levels:

1. What viable financing solutions exist in the Argentinean, Finnish and international markets today taking into consideration Inderfor's operating environment?

, and further

2. What financial solutions best fit the practical needs of Inderfor's customers specifically?

This development work and investigation intends to answer the above questions by 1) providing a brief manual as to what different kinds of financial organizations exist and what kinds of viable solutions they provide, and 2) searching specific financial solutions to be implemented into a few client cases, that will also function as benchmark cases for similar situations in the future.

1.2 Method Description

The research topics for a Bachelor's theses are mainly practices in working life, that currently require developing, altering, maintenance or even creating new practices and processes (Vilkka 2005, 13). Through my thesis I attempt to provide the information and facilitate the decision making process that Inderfor and their clients need in order to alter and improve their current financial processes and solutions. Furthermore, by analyzing the different study cases I intent to systematically provide solutions not only to these specific cases, but also to prospective future scenarios – the target of applied research, as Hetemäki suggests (Vilkka 2005, 13), is gaining practical benefit. Moreover, through the study cases I provide a unique scenario with a common-sense goal that can be used as a benchmark project for future situations (Hakala 2000, 15-16). All in all, I seek to offer useful, up-to-date information and a practical benefit to Inderfor and their business partners.

This thesis work has an informational target of finding the most viable and up-to-date data available in the market. Since Argentina and its economy have experienced drastic changes, hyperinflation and all economic, social and a banking crisis in 2001-2002, I decided to disregard most of the factual financial information and literature published prior to or near to the dates as they most likely provide skewed and misleading information and do not provide an accurate view on the current situation – however, I do include some literature and data (mainly with regards to the forest industry, or for comparison) dating prior to 2001, all with critical evaluation as to the viability of such information. In addition, as I mainly focus on providing information on the services different organizations offer, my information sources are heavily pondered on expert interviews, and secondary data such as internet sources from the

investigated organizations' websites, as well as internal invoices, brochures, recent statistics, reports and articles – this type of material is imperative in order to remain up-to-date and accurate (Ghauri & Grønhaug 2002, 77-81; Hakala 2000, 36). Topicality and practicality, moreover, are essential for a good thesis, especially when the research is done on commission to a company. Moreover, the topics should arise from business life practicalities and the need to develop the every-day practices. Even more so, the approach to a business life thesis should be investigative yet *not* scientific. (Hakala 2000, 10; Hakala 1998, 18; Vilkkä 2005, 12-13.) Although I do provide some theoretical information, this is mainly to backup the terminology used, and the focus of the thesis is on providing information on the different financial services, and on the results and developing current practices. Furthermore, this thesis aims at a more descriptive research, as opposed to exploratory or causal research; although the study cases contain some causal attributes with respect to the analysis of the success of the implemented financing solutions, the main focus is on providing a description of different financing services and the study cases. Also, as opposed to attempting to construct explanations or theorizing as in exploratory research, this work aims at merely providing accurate, descriptive information. (Ghauri & Grønhaug 2002, 48-50.)

Case study is a description of a management situation involving qualitative and field-base construction and analysis, and moreover the focus in such situations is on a current phenomenon in a real life context. (Ghauri & Grønhaug. 2002, 171; Yin 1994, 13). I use a multiple case study design, and all in all, the cases do not involve rare or revelatory information, although each case serves a particular purpose in this work as they provide solutions for specific and differing cases, but can also serve as benchmark for similar cases in the future (Ghauri & Grønhaug 178-179). Moreover, no one best answer or solution exists, but the “best solution” can be different for each, although resembling cases.

More specifically referring to the data, I have collected information by directly contacting different banks and organizations, both in Argentina and in Finland and thus I have obtained primary data through communicational methods such as personal conversations, e-mail, and interviews (Ghauri & Grønhaug 2002, 81). This however, also converted into a barrier: banks in Argentina do not provide even general information on their possible terms and conditions unless the party seeking financing is a client of the bank. Only Banco Francés was willing to provide me with such

information, although it must be realized that the information is not case specific yet merely general and indicative. Respectively Banco de la Nación provided me with more specific information due to the fact that one of the case companies happened to be a client – a relationship that continues to the date. Due to the lack of information, only these two banks will be closely examined in the thesis.

This same scenario needs to be taken into consideration when examining other financial institutions as well. Although information is clearly outlaid on line, in Annual Reports and in other marketing material, case specific renderings do apply and thus, every company soliciting financing from these institutions should directly – or through Inderfor – contact the institutions to find the best solutions for each case.

In order to gain the best use of this work, should it be distributed to Inderfor's local clients in Argentina, I suggest it be translated into Spanish. The language can play a big role in implementing the desired results of the thesis; if the investigation is not translated, hearsay adaptations can become predominant versions of information or the information directly is not utilized (Vilkkä 2005, 57).

The thesis is divided into specific areas to facilitate the understanding of the entity. Firstly, I provide a brief overview on the current day scenario on the financial and forestry markets, with a special focus on Argentina. The given framework, the big picture, should be kept in mind when orientating through the more informative section, or more specifically the banking and financial institution presentations, and finally the study case section. The study cases provide a more practical approach on the financial solutions and also are intended to serve as a base experience for future day projects. As conclusion I will discuss the outcomes of the study cases and sum up essential experiences and give advice and guidelines on possible best practices.

1.3 List of Abbreviations

Throughout the thesis I use some English and Spanish abbreviations and terms that I find important to define for clarity.

ABA Argentinean Bank Association

Agencia	Agencia Nacional de Promoción Científica y Tecnológica or National Agency of Scientific and Technological Promotion
ANR	Aportes No Reembolsables or Non-Reimbursable Contributions
ARS	Argentinean Peso
BNA	Banco de la Nación Argentina
CAE	Créditos a Empresas or Company Credits
DAC	Development Assistance Committee of OECD
EUR	Euro
FONTAR	Fondo tecnológico de Argentina or Argentinean Technological Fund
IDB	Inter-American Development Bank
IFI	Instituciones Financieras Intermedias or Financial Intermediary Institutions
IMF	International Monetary Fund
ISI	Industialización por Sustitución de Importaciones or Import-substitution Industrialization
OECD	Organization for Economic Cooperation and Development
SAGPyA	Secretaría de Agricultura, Ganadería, Pesca y Alimentos or the Argentinean Secretary of Agriculture, Livestock, Fishing and Food
SME	Small and medium-sized enterprise
UVT	Unidad de Vinculo Tecnológico or Technology Linkage Unit
VAT	Value Added Tax

2 THE BIG PICTURE – SEEING THE FOREST FOR THE TREES

In order to understand the framework of the thesis, it is essential to begin by seeing the forest for the trees. The bigger picture is a complex theme, even more so when Argentina is a counterpart. Cultural issues, if not direct misunderstandings, can form a barrier to the Finnish-Argentinean trade, but are not the main character of the misfortunes of the trade. The factors that have formed the current economic and financial situation, especially in Argentina, are various – some issues concerning the forest industry are also discussed below. I also provide a brief theoretical introduction to the key terminology used throughout the thesis. This “Big Picture” is essential to take into consideration, be the user of the information Inderfor, the Argentinean forestry operator or the Finnish manufacturer.

Before discussing some practical, quotidian problems Inderfor, their clients and Argentina in general face, and before providing some insights as to the future of the forest industry in Argentina, I will go through some basic information and key financial definitions used throughout this thesis.

2.1 Key Terminology and Definitions

The supply of financial services has increased globally throughout the years, however, the supply does not yet meet the demand in Argentina. Self-financing is extensively the most common resource for investment needs, especially for SMEs. The role of public sources for financing is still more important than that of commercial banks or institutions – the access to any kind of external financing, public or private, is still very difficult in the country. In Chapter 3 I discuss the role of relationship banking to SMEs, as well as present financial services of one public and one private, international bank. I will also briefly present a Finnish bank, mainly in relation to the study case in subchapter 6.3. In Chapters 4 and 5 I will present some public and commercial Financing Institutions, and their services. All Chapters from 2 to 5 introduce multiple financial vocabulary, that I find important to define separately.

Adverse selection: The better informed economic party has a natural incentive to exploit his informational advantage. For example, debtors can disguise the actual risk of the financed project or otherwise exaggerate the quality of the project or company

in order to gain better conditions or loan terms. (Casu, Girardone & Molyneux 2006, 10; Bebczuk 2007, 7.)

Amortization: devolution of capital (principal) with the form of calculating interest. The most common interest calculation methods on capital include (López Dumrauf 2006, 235-269.):

French system, or fixed equal payments method, refers to a system where the periodic payments remain the same so that the capital proportion of the quota increases and interest decreases over time.

In *German system*, or equal instalments method, the capital paid remains the same but interest varies so that in the beginning more interest is paid: the periodic payments vary accordingly.

Asymmetric information: in any financial system, information is not distributed symmetrically among parties: not everyone has the same information, information is never “perfect”, parties hold internal information that is not available to all counterparts etc. This might hinder the debtor and creditor from successfully doing business together, as the acquisition of information is a costly process and asymmetric information can also lead to adverse selection or moral hazard. (Casu et al. 2006, 9-10).

Bill of Exchange: a credit document used in international trade that does not require negotiations between the creditor and the debtor – a fast and less expensive instrument. Bill of exchange is also transferable and thus applies to situations where the seller wishes to sell its receivables to the bank. Bill of exchange allows the buyer to retain the goods against the documents, but to repay the purchase at a future date. A *Promissory Note* is a bill of exchange where the buyer (under-signor) promises to repay the invoice under the terms agreed upon. *Aval* is a guarantee for the payment of bill of exchange by the buyer’s bank (Helppi & Paloheimo 2005, 66; 140-143.)

Buyer: I use the term to describe the Argentinean buyer. The buyer can be a legal importer, or just the end user, but mainly is referred to as the party soliciting the financing for the procurement.

Collateral: is an asset that secures repayment on loan (Casu et al. 2006, 473). For example, in leasing contracts the equipment leased can function as collateral in case the lessee becomes insolvent.

Commercial Financing Companies: Differing from the service range of banks (that also provide deposit, currency exchange, financial guidance and other services), commercial financing companies center in providing mainly financing options for working capital investments or capital goods, that also function as collateral for the operation – collateral, thus, might not be needed but this also heavily raises interests on the loan, as risks for creditor are higher. Large retail firms and motor companies usually have their own commercial finance house subsidiaries. (Casu et al. 2006, 57; Tuhkanen 2006, 227).

Default: The inability to ultimately fulfill a contractual obligation when it falls due (Casu et al. 2006, 476). See “Insolvency” below.

Factoring: accounts receivable financing. A factor may step in to provide the exporter with a combination of purchasing exporter’s receivables, eliminating importer’s default risk and/or collecting funds from the importer i.e. facilitating exporter’s cash-flow. Factoring usually applies for low-value, short-term, possibly continuous accounts receivables (Guide to Export-Import Basics 2003, 215; 217.)

Fixed interest rate: interest that remains the same throughout the agreed period, either for the entire loan period or only a part of it (Tuhkanen 2006, 243).

Variable interest rate: interest rate that can change throughout loan period – the interest is usually tied to a general interest rate, i.e. within Europe to bank’s internal prime-rate or euribor (Tuhkanen 2006, 243-244).

Forfaiting: accounts receivable financing: although forfaiting is related to factoring, some basic distinctions prevail. Forfaiting usually involves higher values and longer term obligations, and individual transactions, and the purchased exporter’s receivables are often based on instruments (e.g. bill of exchange, promissory notes), and require a bank guarantee. However, the exporter is covered for commercial and political risks, but these risks are assumed by the forfeiter. (Guide to Export-Import Basics 2003, 217.)

Grace period: A period of time in the loan period that frees the borrower from repayments, and only interests are due (Tuhkanen 2006, 264). Grace periods can also be free from interest fees, when interests are compounded throughout the grace period, and fall due as repayments do.

Guarantee: by issuing the guarantee, a bank, insurance company or another third party assumes financial obligations and stands behind the risk of the loan or other type of financing in case the borrower defaults – thus, in such cases the guarantor is responsible for repayment. (Casu et al. 2006, 66; 483.)

Insolvency: The inability to ultimately fulfill a contractual obligation when it falls due (Casu et al. 2006, 476). See “Default” above.

Leasing: a long-term rent on machinery or equipment, mainly for companies that are interested in *using* the machinery instead of *purchasing* one (Tuhkanen 2006, 10): however, most leasing contracts include a purchase option clause that enables the lessee to purchase the machinery at termination of the lease period for an agreed percentage of the face value.

Letter of Credit (L/C): Letter of Credit is a legal banking agreement that allows importers to offer secure terms to exporters – guarantees the seller that if various documents are presented, the bank will pay the seller the amount due, and also allows the buyer not to pay cash up front to a foreign country before receiving the documents of title to the goods purchased (Casu et al 2006, 98-99).

Long-term loans: maturity (longer than one year) and amortization are based on borrower’s ability of repayment (Tuhkanen 2006, 239). Interests for long-term loans are usually less expensive, than for short-term loans, yet might propose a higher risk for the lending institution.

Maturity: The length of time elapsing before a debt is to be redeemed by the issuer (Casu et al. 2006, 487).

Moral hazard: or hidden action. Superior information may enable one party to work against the interests of another, for instance, debtors may apply the funds for riskier projects than the ones agreed upon with the creditor (Casu et al. 2006, 13-12; Bebczuk 2007, 7).

Nationalization: (nacionalizar) in this context, costs incurring from importing goods. Usually are approximately 40% of total value of the machinery, including VAT (10.5%), possible tariffs and other costs. (Rodriguez 2008b.)

Nominal annual interest: Interest rate (r) plus other expenses such as possible commissions, initial charges etc. (Tuhkanen 2006, 34)

Public Financing Institutions: Differing from the role of banks, as well as that of commercial financing institutions, and as the name implies, public financing institutions have a public interest incorporated. In Finland, for example, publicly owned financing institutions have a general objective to enhance internalization and exports of Finnish companies, thus also improving conditions within Finland and the country's business sector (Helppi & Paloheimo 2005, 14-22). As an example of Argentina, FONTAR has a public interest and objective in facilitating access to financing for technological modernization projects among the Argentinean companies, by therefore enhancing competitiveness and productivity of the local business sectors.

Risks: *Commercial or credit risk:* the risk of a loan not being repaid in part or in full: a risk of a decline in the credit-standing of a counterparty, be it the importer, the importer's bank, or guarantor. This does not always imply counterparty's default, but can also mean the unwillingness to repay, or buyer's inability or unwillingness to fulfill other contract terms. (Casu et al. 2006, 259; Helppi & Paloheimo 2005, 45.)

Political or country risk: risks of war, revolution, natural hazards, economic instability, country's government's/officials' procedures (export restrictions, currency transfer restrictions etc.) (Helppi & Paloheimo 2005, 42.)

Short-term loans: maturity is less than one year, and the loan is usually repaid at single payment – payment schedule can also be restructured according to bank policies (Tuhkanen 2006, 239).

2.2 Access to Credit in Argentina

The improvement and developments in the credit markets boost national economic growth and welfare (Bebczuk 2007, 7). Argentina however, up to date, has faced various and serious problems in improving the domestic credit markets, and SMEs are the first to experience the effects of such under-development (Bebczuk 2007, 8). Although the 1990's showed great expectations as to the developments in the economy – Argentina, then, had one of the wealthiest economies – a lot of the wealth was merely backed up by foreign and IMF loans and by the convertibility plan where the peso was pegged to the USD with a rate of 1:1. Paavilainen and Wilska (2001) refer to Argentina as one of the success stories of the decade as the country was able to push down high inflation and stabilize the economy with strict fiscal policy and the convertibility plan or “dollarization” (Paavilainen & Wilska 2001, 31). Argentina was, in fact, considered the prodigy child of the successful plan at the time. Unfortunately, while the political reforms demonstrated stability and growth, the underlying troubles and macroeconomic mismanagement were unveiled after the turn of the century (Acuña, Galiani & Tommasi 2007, 31.) This scheme first lead to a banks' liquidity crisis and then brought the country onto the verge of economic and social chaos in the late 2001.

Furthermore, Argentina's public economic politics have, for decades, based on backing up the ISI and other large scale economic actions with international loans, going from 60% of public debt in 1968 (Paavilainen & Wilska 2001, 25) to more than 400% in 1998 and due to a partial repayment and restructuring of the IMF loans in 2005, the public debt of 2007 was 59% (CIA World Factbook 2008 2007, 30; CIA World Factbook 2008). The debt burden was further enlarged after 2002 when the convertibility plan was abandoned and the exchange rate multiplied by four: most of Argentina's debt was granted in USD, thus quadrupling the debt alongside with the currency rate fluctuations (Acuña et al. 2007, 55; Paavilainen & Wilska 2001, 89). The restructuring of IMF loans, and further the inability to comply with the terms has influenced Argentina's ratings in creditworthiness levels globally, also that of Finnvera: the Argentinean companies are influenced by these ratings through poor access to credit internationally (Rodriguez 2008c). Although seemingly at a better condition during the 1990's, the country faced high, yet better controlled inflation and severe constraints in the public sector, despite of the disbursements of international loans and IMF. The problems, however, remain the same a decade later; the domestic

expenditure and investment actions are impeded by increases in taxation and cuts in public spending: in addition, difficulties in access to credit for private consumers and companies hinder the economic growth. (Bebczuk 2007, 8; Paavilainen & Wilska 2001, 89.)

A study conducted by the Fundación Observatorio Pyme (SME Observation Foundation) in 2006 demonstrates that 83% of Argentinean industrial SMEs do not rely on external financing, and only 8% have obtained bank credits and the remaining 9% financing from other sources. Furthermore, if SMEs wish to invest, self-financing is the only option for more than 4 out of 5 SMEs. (Bebczuk 2007, 8.) To compare, in Finland, 60% of SMEs use banks as their main source of financing. (Peltoniemi 2007, 156). Concerning the difficulties in accessing credit, it is worth noticing that the average annual interest rate for bank loans in Argentina places itself approximately to 25.2%, converting it to a highly expensive form of financing especially for the SMEs. The nationwide newspaper La Nación confirmed on 15.7.2008 that credits to companies in Argentina have further diminished in June 2008 by 1.5% compared to the previous month, and states that the credits were probably granted with poor contract terms to the borrower. According to the Central Bank of Argentina, the fall in commercial bank credits represents the first negative figures in five years. Again, the section to suffer the consequences are the SMEs. (Blanco 2008, 2.)

Most likely due to the volatile economic history in the country, and the poor paying capacity, the banks requirements are strict when it comes to accessing credits or other type of financing. Moreover, private banks may refuse to serve some clienteles because they are too difficult to screen and monitor, or because intermediation costs are too high – the ones to suffer the consequences are small and young firms, as well as population and companies in poor and remote regions. (Bebczuk 2007, 9.) As an example, the international and commercial bank HSBC refuses to provide credits of financing to forestry firms, due to bank policies. In addition, one of the factors influencing the access to credit is, although hard to prove, the existence of underground economy or so called black money in avoidance of high taxation; as the official figures might show less cash flow and poorer net income than the real, unofficial figures demonstrate, or accounting procedures do not even exist, credit institutions deny access to credit in the fear of commercial and customer default risk (Bebczuk 2007, 24).

To add to the financial institutions' concerns, and referring to the concepts of adverse selection and moral hazard, it is not uncommon for the borrower to disguise the actual risks of the projects in need of external financing, to solicit financing for a less risky project but then apply the funds to another, riskier project or to falsely declare default (Bebczuk 2007, 7). Therefore the institutions require long, in depth but costly evaluation on each company, project and the related risks – risk management has become vital for both banks and financial intermediaries, information processing being the key element of managing risks (Peltoniemi, 2007, 156). Basing on my personal experiences, commercial banks do not give out any information on their services, possible contract terms or prices unless the company soliciting financing is a customer – the commercial and political risks are high, and through such standard practices the risk for the credit provider are reduced. However, and especially with small companies, by centralizing financial operations in one bank and establishing a long-term relationship between the bank and the company, better credit terms can be negotiated and the access to financing can be facilitated. (Peltoniemi 2007, 166).

To avoid or reduce the above mentioned risks, the lenders have, in fact, engaged in different types of processes. Aiming at obtaining first-hand knowledge on the entrepreneur's character and business, the lenders intend to establish close and long-term relationships. Also, lending short-term is a common method, which also allows the lenders to monitor every stage of the project's life using the threat of calling off the loans if the entrepreneur seems to be taking excessive risks. Furthermore, the lenders might share a track record and balance sheet information on borrowers through private and public credit registries, and might ask for collateral (to ensure repayment) or co-financing. However, requiring collateral is an evident obstacle for most SMEs as they might not possess tangible capital to pledge. (Bebczuk 2007, 17.)

The three main reasons affecting the access to credit in Argentina according to Bebczuk (2007, 23) are: structural barriers to credit growth as a whole, the scarce use of non-traditional credit tools (i.e. leasing, factoring etc.) and the related social costs and the lack of viable public policies dealing with such costs. First of all, creditor protection in Argentina is lower than in common law countries resulting to converting even collateralized transactions risky in practice. The lack of protection mechanisms also extends to the borrowers, especially in the non-traditional transactions: should either party not comply to the contract terms, harmed parties have no way of filing for complaint or obtaining redressing. In addition, the overall institutional infrastructure is

far from optimal, and the 2001-2002 crisis and its aftermaths have not left room for optimism or trust amongst the borrowers. Secondly, Argentina is heavily centered to banking in terms of financing systems; non-traditional financing is something that most SMEs are not even aware of the existence or do not understand such instruments. Thirdly, as Argentina is a country of asymmetric information, high intermediation costs, bureaucracy and lack of transparency, firms tend to begin investing by exhausting their internal funds, and only then raise debt and equity. (Bebczuk 2007, 23-28.)

Although Argentina at the moment offers special credit programs to SMEs, the programs are consistently small in magnitude, and little information exists on project selection criteria; similar to FONTAR (Bebczuk 2007, 29). In addition, to obtain financing through these programs might not apply to the majority of the companies, and does not remove the difficulties in accessing credit, although might have potentially large positive effect on production and employment levels. These programs offer, for example, less expensive interest rates and guarantees to back up bank loans, however, strict restrictions apply as to what kinds of investments are considered for the bank loans, what type of collateral is required, or how well the soliciting company needs to operate financially in order to access the credits. Accessing credit through these programs, however, does allow companies that otherwise might not be able to access any type of external financing, to improve their operations. In any case, when 83% of SMEs are left outside of external financing, not only government programs but also banks, be it public or private, need to concentrate on this issue in order to allow faster economic growth.

2.3 Current Day Scenario for Forestry Industry in Argentina

Despite the economic mishaps, Argentina has been able to maintain an open economy throughout the years (Acuña et al. 2007, 19). Argentina in general has risen from a deep economic crisis with great sacrifices, but some might argue that with vast natural resources and to a certain extent, by effectively utilizing such resources, the ongoing rise from rags to riches has been less painful. Although still struggling with export restrictions and various financial constraints, the economy and especially the forest industry are speculated to experience vast growth – the past year experiences have

proven this to be true, and for example already in 2003, only two years after the crisis, the total aggregated value of the forestry sector reached 1.7% of the GDP (Darraidou 2004), and the figure for 2007 is estimated to reach 2% (Cortes 2008). In addition, multiple efforts, all public, private and foreign are made to reach higher objectives of such contribution (Darraidou 2004).

Opportunities

Public efforts to promote the forest industry is primarily represented by the Law 25.080, implemented in 1999, which offers benefits to forest owners for efficient and sustainable forestation and promotes forest investments for new and existing forests and forestry firms (Ley 25.080). As all economy, however, the beneficiaries and benefits of the law suffered from the 2001 crisis, but have regained strength since the date. Moreover, in 2002, the subsidies of the law 25.080 were augmented to reinforce the sector – by average the raises were 70% compared to previous figures (Darraidou 2004).

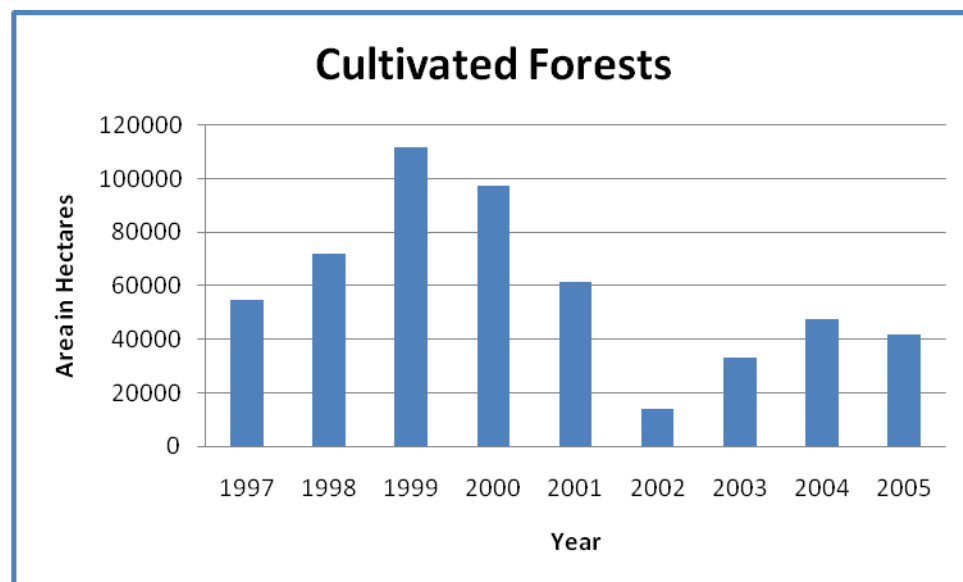


FIGURE 1. Cultivated Forests in Argentina 1997-2005. Modified from Superficies Totales Forestadas por Año de Realización and Sector Forestal 2002 (Statistics by SAGPyA)

The year 2002, in general, experienced low productive levels in the forestry sector, with regards to the area of planted forest and imports of forestry machinery, but already beginning from 2003 the sector began to recover. Despite the crisis framework, 300.000 hectares of forest mass has been planted with the benefits of the promotional program of Law 25.080 after 1999, totaling to 1.2 millions of hectares of planted forest in 2007 - 4% of total cultivated area in Argentina (Cortes 2008). In 2004 SAGPyA estimated that 1.1 million hectares of planted forest existed in Argentina, of which half were in the growth stage. (Peirano 2004). In addition, natural forests covered approximately 45 million hectares, and 20 million hectares of surface suitable for forestry existed in 2001 (Paavilainen & Wilska 2001, 91).

As to the benefits the Argentinean climate holds against the Nordic countries, is the rapid growth rate of the woods: the average maturity of forest is 14 years in Argentina compared to the 99 years of Finland for instance. In Argentina mostly pine and eucalyptus are cultivated, in Finland the main cultivations consist of pine, birch and spruce. As an example, the growth rate for pine in Argentina is 20-35m³/hectare/year reaching harvesting age at 18-23 years, whereas in the Nordic conditions pine grows at a rate of 8m³/hectare/year reaching harvesting age after a 100 years. Eucalyptus matures even faster, for pulp in 7-10 years, and for saw log usage in 12-13 years yielding 25-45m³/hectare/year. (Rodriguez 2008c.)

With respect to existing forests in need of felling and further wood processing, and the future need of machinery for the new planted forests, imports are a big source for the technology; Argentina holds large volumes of forest getting into their harvesting age thus new investments will take place in the near future (Rodriguez 2008a).

Furthermore, according to SAGPyA (Evolución de Importaciones de maquinaria 2008), the imports of machinery for the forestry sector have steadily and significantly risen up to 2006, roughly 400% compared to the levels of 2002 measured in USDs. Although increasing rapidly, the figures in 2006 did not yet reach the levels of pre-crisis in 1998 or 1999; however, the figures show a clear indication of future progress, provided that the financial markets will allow developments in the future as well.

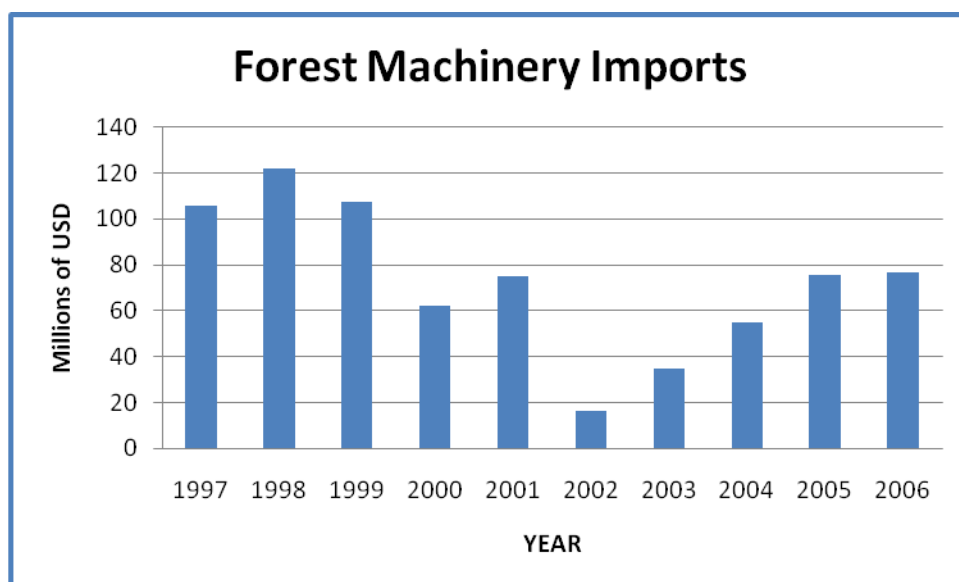


FIGURE 2. Forest Machinery Imports to Argentina 1997-2006. Modified from Evolución de Importaciones de maquinaria (Statistics by SAGPyA)

Referring to a study conducted by PriceWaterhouseCooper in 2005 (Cetrángolo 2007), the principal forest companies in Latin America have a net income that corresponds to that of the half of the companies in the US and EU. This is an important contribution taking into consideration that they only invoice a tenth part compared to the companies in the Northern hemisphere, and respectively they double the returns on capital invested. Moreover, while the big players are moving towards Latin America, the continent needs to perform its' part of the equation as well.

In a global frame, the demand for wood and forestry products and the consumption per capita of such products has increased steadily for decades (Seinelä 2008). Lower labor costs are an advantage for Argentina, not forgetting the high growth rate quality of the wood. In addition, large investments on the sector in Latin America have been made – just to mention one, the Finnish pulp mill Botnia, the largest of its kind, began operating in Uruguay, neighboring country to Argentina, thus increasing the demand for local production and supply. New investments in Uruguay are projected by the Finnish Stora-Enso as well as Spanish Ence, which would further increase the demand for wood. Stora-Enso is also estimated to plant trees in the area for the use of their Veracel plant in Brazil, and especially Ence is interested in purchasing wood from Argentina. (Kuparinen 2008, 24-26.)

Challenges

Despite all opportunities and global growth of the industry, the greatest flaws of the sector in Argentina, according to Peirano (2004), are the limitations the SMEs in the sector face. The SMEs own 60% of the planted forests, yet they experience difficulties in generating quality in their plantations. Even more so, added to the informality of the sector, low productivity and problems of scale and management in the forestry SMEs, this scenario escalates to difficulties in international competition, and also rebound to social problems and the final and future value of the forests owned. (Peirano 2004.) Not the least, the industry is facing challenges in all levels as the requirements for decreasing greenhouse effects, increasing carbon emission traps and sustainable development become viable (Norlander, Å. 2008, 37).

Other challenges faced by the sector are the lack of long-term vision and leadership, low levels of professionalism in the sector and the lack of plans for energetic use of woods. On the other hand, exports are well promoted for forestry products, the natural and climate advantages favor the production and developments in the sector and unions and synergy are visible and on their way among the forestry operators in Argentina. (Braier 2004, 15-17.) Although the lack of professionalism is demonstrated in the form of family company culture and lack of transparency in accounting and operational procedures, the level of technical professionalism and quality of Argentinean forestry professionals has been recognized by many international Nordic experts (Rodriguez 2008c).

One of the challenges for the forestry operators in Argentina at the same time presents an opportunity for the Finnish forest machinery manufacturers. The mechanization of harvesting activities has only recently expanded leaving a good market opportunity for the sellers: especially SMEs in the sector have only recently begun the mechanization process, larger companies are further ahead in the process. Although the mechanization is becoming a trend, still only few SMEs and forest owners are aware of how to mechanize. In addition, respective to the harvesting trends in Argentina centered in transforming from full tree to cut-to-length methods, the Finnish manufacturers hold an advantage as the machinery is meant to be applied for this system. In addition, the Argentinean forestry operators hold a rather old machinery base in general: a challenge to the local companies but an opportunity for the manufacturers. (Rodriguez 2008a, Rodriguez 2008c.)

To keep up with the global developments and demands, many changes are in order. Many experts from different fields of Argentinean forestry and different associations agree, that in order for Argentina to remain competitive international standards need to be implemented, the import of equipment and machinery – be it used or new – needs to be facilitated, which also leads to the absolutely imperative need of facilitating the access to credits and financing for all operators in the field, but most importantly the SMEs. (Darraidou 2004, Peirano 2004, Parodi 2004, Gaviola 2004).

2.4 Specific Challenges Faced by Inderfor S.A.

Taking a closer look at Inderfor and their business partners in Argentina, the array of problems is rather wide. Leaving aside the general challenges discussed previously, Inderfor has experienced various specific hardships. According to Darío Rodríguez (2008b), the Managing Director of Inderfor, at the moment the biggest obstacle for growth is the lack of financing and poor access to financing of their local clients, who are mostly SMEs or sole proprietorships. Furthermore, an explicit demand for Finnish forestry know-how and equipment exists, yet due to financing problems the buyers easily choose Brazilian machinery of lesser quality over the Finnish technology – in the long run, this also places the buyer at a disadvantaged position also from a productive point of view. (Rodríguez 2008b.)

In addition to the lack of financing, unstable commercial situation of the Argentinean economy, uncontrolled inflation and expensive euro contribute to the difficulties of the local buyer. Moreover, the commercial risks are high, thus a big technological investment requires both financial and mental strength. Poor access to financing also directly contributes to the fact that the modernization of the machinery most often does not happen at a timely fashion, many times exceeding the life cycles of the equipment. Mr. Rodríguez states that often times a forestry operator postpones the purchase of new and improved machinery, and might face a situation where the equipment is taken to a mere reparation but is found in such poor condition that cannot be repaired. Moreover, in such situations new equipment is needed right away – delivery times from Finland usually take up to 4-6 weeks, and again, the Brazilian option is a faster choice. The problem of shortsightedness of the Argentinean buyer could be overcome and sales of Finnish manufacturers increased, if the Finnish

machinery were available locally in Argentina for “ex tempore” purchases, for instance through a supplier managed inventory or inventory owned by Inderfor. (Rodriguez 2008b.)

Like mentioned, the demand for Finnish machinery is evident. The problems for the Argentinean buyer, however, do not draw to a close at deciding to opt for Finnish. Provided that the buyer has the resources to finance the purchase, by external or merely internal resources, it is the contract terms of the Finnish manufacturers that outlay another challenge. Most of Inderfor’s Finnish business partners require full payment of the purchase prior to export. On average, 50% of the purchase is required to be paid at order, and the remainder at export – this in practice means that the Argentinean buyer fully pays the purchase weeks before receiving and being able to utilize the equipment. Moreover, more flexible contract terms might facilitate the trade between the Finnish and Argentinean operators. (Rodriguez 2008b.)

One other challenge, which is also hard to prove but greatly affects business in Argentina, is the existence of the so called black money. To avoid high taxation, many operators officially invoice a lesser quantity than actually is paid for the goods or services. (Rodriguez 2008b.) For the Finnish operator it is important to take into account that, although illegal, this is a rather normal and every day habit in Argentina and is not regarded as highly poor or suspicious action, but merely a tool to survive – the means to the end justifies the action. This action is not limited to SMEs only, but also large corporations might order purchases under the counter. As mentioned, it is a commonly known fact that the black market money exists, yet statistics or official information do not back up the assumptions. Moreover, as a cultural issue, the Finnish manufacturing company should not be taken by surprise if such conversations arise in negotiations, but needs to be aware of such prevailing habits; these habits are not limited to Argentina, but tend to rule the business throughout Latin America.

Although the competition is fierce, Inderfor and the Finnish machinery hold clear advantages as opposed to e.g. the Brazilian machinery. One of Inderfor’s clients (see Ch. 6.1, Study Case Harvester Head; Vera 2008) says he had evident reasons why to opt for Inderfor’s services. He lists excellent after sales service, high quality of the machinery and positive references and colleague experiences as the motivating reasons to choose Inderfor and Finnish machinery – the will to pay for quality is found within the Argentinean buyers, yet the sources of viable financing are still few.

3 BANKS AS A SOURCE OF FINANCING

Banks constitute the main external source for financing globally. The role of banks, be it private or public, differs from that of financing institutions: banks, instead of solely focusing on offering different financing services, also provide deposit and payment transfer services, foreign currency exchange, and informational services. (Peltoniemi 2007, 156; Helppi & Paloheimo 2005, 23). This section will, however, focus on the lending services of banks by introducing more closely two banks in Argentina and one in Finland. Mainly this means giving a projection on what solutions the specific institutions provide at the moment.

First, in chapter 3.1, I will briefly discuss the role of relationship banking to SMEs as it greatly influences the access to credit of these firms, and this chapter also functions as an important suggestion for the Argentinean companies to keep in mind – relationship banking is especially important to high-risk firms, into which category forestry operators in Argentina tend to fall.

3.1 Relationship Banking and SME's

Accessing bank credit is difficult for companies in Argentina, especially SMEs. To keep up their competitiveness in domestic and global markets, though, investments are a necessity. As discussed previously in chapter 2.2, the problems arising from asymmetric information cause the banks and other creditors to engage in lengthy and profound credit status evaluation of the soliciting companies and the related projects. However, relationship banking could be a solution to the problem, also at the same time being beneficiary for both counterparts (Peltoniemi 2007, 155).

Peltoniemi (2007) and multiple other international researches referred to in the same work, indicate that a long-term bank/firm relationship is beneficial, especially to high-risk firms, and that longer duration tends to lower the cost of credit. Also, as the relationship matures, the loan premiums for high-risk firms decrease at a higher rate than for low-risk firms. (Peltoniemi 2007, 153.)

Moreover, it is beneficial for the firms to establish a close and long-term relationship with the bank. This is true especially in Argentina, where banks can obtain continuous

information of the companies and the entrepreneurs throughout the relationship, and follow the developments of the companies more closely to narrow down the risks of asymmetric information. Although beneficial in the majority of the cases, it is to be noted that the firms need to be aware of giving a monopolistic power to the bank should they only centralize their operations to one bank. However, as of April 2006, 80.2% of small borrowers in Argentina operated with only one bank, whereas the same figure for big borrowers is 25.9%. (Bebczuk 2007, 11.) As an example of a beneficial bank/firm relationship, see chapter 6.1 Harvester Head. The buyer company has operated with Banco de la Nación Argentina for years, and thus when it came to obtaining credit quickly for the procurement of the harvester and harvester head combination, the process was short, trustful, and the bank even had a promotional credit program for the company's use.

Furthermore, Peltoniemi (2007) suggests that stronger relationships can increase the efficiency of small-business financing in the banking sector. The benefits of relationship banking should be taken into account when planning for external financing as it can lead to better contract terms, less strict requirements for collateral, and in general, speed and facilitate the solicitation process.

3.2 Banks in Argentina

Banking systems in emerging economies are still very fragmented in terms of size, ownership structure, competitive conditions and profitability (Casu et al. 2006, 449), and banks in Argentina have indeed seen multiple acquisitions, mergers and privatizations throughout the recent years. The banking crisis of 2001-2002 has left its stains to the market, and has to some extent strengthened the role of state-owned banks as lenders for remote areas, farmers and SMEs, although the invasion of foreign, especially Spanish banks has been clear in Argentina (Casu et al. 2006, 437-441).

All banks operating in Argentina tend to require plenty of company information prior to granting any type of financing. The Appendix 1 shows an example of the requirements demanded by Banco Francés, but gives good direction as to what most banks need in order to evaluate a company's risk levels. In a country where asymmetric information is common, and risks of insolvency, moral hazards and

adverse selection are evident, banks tend to lower the risks with demanding selection criteria and thorough credit status evaluation. Nonetheless, banks are not the only party with trust issues; after the 2001 banking crisis and public fund manipulations for electoral purposes in the 1990s, the people and companies have also lost their trust to banks and other public institutions. Argentina, moreover, is still one of the few countries where self-financing is the major financing method for SMEs. (Bebczuk 2007, 24; Acuña et al. 2007, 40.)

It is also worth noticing that the Argentinean Bank Association (*¿Para qué sirven los bancos?* 2008, 4) lists 85 different financial entities, of which 56 are private banks, 12 public and 17 financing houses. In comparison, the Federation of Finnish Financial Services (Kallonen 2008, 3) lists 338 banks in Finland (of which 232 banks belong to the OP-Pohjola Group): only 13 are commercial banks and 15 foreign banks. In addition, the Finnish and Argentinean banking systems only include two banks that operate in both countries: Citibank and ABN AMRO Bank.

TABLE 1. Top Ten Banks in Argentina. Modified from Ranking ABA 2008

RANK	BANK
1	BANCO DE LA NACION ARGENTINA
2	BANCO SANTANDER RIO S.A.
3	BBVA BANCO FRANCÉS S.A.
4	BANCO DE GALICIA Y BUENOS AIRES S.A.
5	BANCO DE LA PROVINCIA DE BUENOS AIRES
6	HSBC BANK ARGENTINA S.A.
7	BANCO MACRO S.A.
8	CITIBANK N.A.
9	BANCO CREDICOOP Coop. Ltda.
10	BANCO DE LA CIUDAD DE BUENOS AIRES

Note : Lines 2,3,6 and 8 represent international banks

Out of ten largest banks in Argentina, four are of foreign origin. Most likely, when operating with Finnish products and companies, it will be easier to gain trust for the Argentinean buyer if they cooperate with one of these international banks. For

example, a financing manager and expert of Finnvera notes that in the majority of the cases, if at all, Finnvera can only offer credit guarantees if the Argentinean creditor is an international and a trustworthy bank (Finnvera e-mail 2008).

Based on personal consultations during July 2008 with different banks, many of them also set some guidelines and politics as to what type of companies they are willing to cooperate with. HSBC, for instance, will not consider granting credits or financing to forestry companies. They would, however, consider financing a purchase made by Inderfor (that could sublease or resell the machinery to the end user), since Inderfor does not directly operate or own forests but is an intermediary in the sector. Many banks also discard financing for used equipment procurement, due to greater risks.

What follows is a closer examination on two Argentinean banks, and their lending services. With respect to Banco Francés, leasing operations will be presented more closely. Banco de la Nación Argentina, a public bank, also ended up providing a loan for the purchase of a harvester combination – the outcomes will be presented in chapter 6.1 Harvester Head.

3.2.1 Banco de la Nación Argentina – an example of a public bank in Argentina

The highest ranking bank according to the Argentinean Bank Association is in fact a public bank of Argentinean origin. Banco de la Nación Argentina (BNA) has held the number one position for years, all in terms of amount of deposits and loans to the private sector, size and other factors. (Ranking ABA 2008.)

BNA is a public bank, offering a wide range of services from personal banking to banking for SMEs, large companies and agricultural firms. Since its founding in 1891, BNA has had an objective to foment the development of SMEs despite of the activity they engage in. Alongside with banking services, BNA also has separate entities such as Nación Leasing, Nación Factoring and Nación Seguros (insurances). (Banco de la Nación Argentina 2008.)

BNA also provides other types of financing services. A company can solicit FONTAR financing and credits through the bank, as well as obtain FOMICRO subsidies intended for micro firms. FONAPYME (Fondo Nacional de Desarrollo para la

MIPyME) also is governed by Banco de la Nación, with the mission of providing credit to SMEs with less expensive interest rates. (Bebczuk 2007, 16.)

BNA is also a major shareholder (98%) in BICE or the Banco de Inversión y Comercio Exterior (Foreign Trade and Investment Bank), that was created in 1991 with the mission of financing productive investment and international trade transactions – the bank is not allowed to receive deposits from the public. (Bebczuk 2007, 16.)

What follows is a brief overview on the credit lines and financing offered by BNA. Unless otherwise mentioned, the information can be found at www.bna.com.ar.

- **Import Financing:** Loans in USD or local currency to finance imports and/or advance payments of non-used goods through such instruments as documentary credits.
 1. **Amount:** up to 100% of FOB, CFR or CIF price, or equivalent: i.e. price of machinery at port in Argentina.
 2. **Period:** from 180 days up to 5 years.

TABLE 2. Import financing by Banco de la Nación. Modified from Banco de la Nación

Clients	Use	Amount	Period	Guaranties
Sole proprietorship or company clients of BNA.	a) To finance imports of new goods. b) To finance the advance payment of new goods.	Up to 100% of FOB, CFR, CIF value or equivalent: insurance and transport need to be covered by exporter.	a) Capital goods up to 5 years. In foreign currency up to 2 years.* b) Durables: up to 2 years. c) Semi durables: up to 1 year. d) Other goods: up to 180 days.	To be determined on a case-by-case basis.

*For longer payment periods for foreign currency financing, the soliciting company should contact BNA well in advance.

- Investment financing for Micro companies and SMEs or “Línea 400”: for acquisition of new or used capital goods (domestic or imported), for installation of related accessories and other related investments, for incremented labor costs and working capital restructuring. In USD or ARS. Only viable through 2008. Note: nationalization costs are usually approximately 40% of the machinery value, added to the total principal.

TABLE 3. Financing “Línea 400” by BNA. Modified from Banco de la Nación 2008

Amount	Period	Grace Period	Interest
a) <i>New goods</i> : up to 100% of principal including VAT and nationalization costs b) <i>Used goods</i> : up to 70% of face value including VAT c) <i>Working Capital</i> : up to 100% of needs, however not exceeding 25% of total investment d) <i>Installations</i> : up to 100% of face value including VAT	a) Investments: up to 10 years b) Working capital: up to 5 years c) Amortization using German system.	Up to 6 months from last disbursement.	Fixed interest of 12% during the first 5 years, after which variable interest rate. (Total cost 13.25%)*

*Taking into consideration other costs (handling costs, commissions etc.)

- Financing Productive Investments (see Table 4 on next page): This line of credit coincides with the above “Línea 400”, with the exception that the interest is defined differently. This line of credit has been effective since 1.1.2006 and is oriented towards all Argentinean firms or sole proprietorships. The credits are granted in ARS, and in the case of imports in foreign currency. Repayment schedule is negotiated individually depending on company’s capabilities; monthly, every three months or every six months. Guarantees are issued to the bank’s favor, and the line of credit can also be canalized to leasing operations.

TABLE 4. Financing Productive Investments by BNA. Modified from Banco de la Nación 2008

Amount	Period	Grace Period	Interest
a) <i>New goods</i> : up to 100% of face value including VAT and nationalization costs b) <i>Used goods</i> : up to 70% of face value including VAT c) <i>Working Capital</i> : up to 100% of needs, however not exceeding 25% of total investment d) <i>Installations directly related to investment</i> : up to 70% of face value	a) Investments: up to 10 years b) Working capital: up to 5 years c) Amortization using German system.	Up to 6 months from last disbursement, grace period does not apply to interests.	a) credits in ARS: tied to Baibor (Central Bank of Argentina) + a variable risk margin from 4.75% annually b) USD: Libor + a variable risk margin from 2.90% annually c) EUR: negotiated per each case d) interests can be covered by corresponding subsidies.

- Credits to companies for Working Capital and Investments: BNA defines *Working Capital* as investments that are inevitable for a company to maintain production and sales activities. These investments are usually short-term, and thus also credits granted for working capital are short-term. Through *Investment Credits* a company can finance activities which life cycle exceeds one year, such as the purchase of machinery, terrain, transport etc.

 - Amount:** to cover costs amounted from production processes and sales activities.
 - Period:** up to 5 years
- Import Aval: a guarantee for the payment of bill of exchange by the buyer's bank (Helppi & Paloheimo 2005, 140-143.) BNA offers avals for companies that are clients and have a related credit with the bank. BNA charges a commission for issuing an aval and guarantees are to be determined on a case-by-case basis.

1. **Amount:** For general goods 100% of total cost and interests, for capital goods 85% of total cost and interests.

2. **Period:** from 1 to 5 years

- **Stand-by Letters of Credit:** BNA issues Stand-by L/Cs to cover the bank's clients' responsibilities abroad, and also functions as the informative party for Letter of Credits for international operations.
- **Nación Leasing:** a separate entity within the Banco Nación Group oriented to SMEs and large corporations to finance acquisitions of real estate properties as well as smaller scale machinery both domestic and imported.

1. **Purchase Option:** 5% for machinery, 10% for real estate property

2. **Requirements:** two years of activities within the sector the company operates in, no negative credit/financial history.

3. **Periodic payments:** 12, 6, 4, 3 or 2 times per year according to agreement.

4. Lease contracts in ARS, variable interest rate tied to 30-day "Tasa Badlar" of the Central Bank on Argentina. Lessee bears applicable insurances, BNA also charges commission and handling costs.

- **Nación Factoring:** A separate entity within the Banco Nación Group, with a focus on companies with high growth potential. BNA offers financing through factoring for SMEs taking credit instruments (invoices, cheques etc.) as guarantee, as well as for large companies through accounts receivable management.

As mentioned before, state-owned banks in Argentina have assumed a role as the funder of the SMEs disregarding the sector they operate in. Being a public bank, Banco de la Nación has taken a clear focus towards this direction, and although the bank also has lines for large corporations and private people, SMEs and agricultural companies are in the focus of the financing services. In addition to providing multiple lines of credit and other instruments to finance investments, BNA offers access to various public financing programs.

3.2.2 BBVA Banco Francés S.A. – an example of a private international bank

Banco Francés, listed as the 3rd largest bank by ABA (ABA Ranking 2008), is an Argentinean bank, nowadays with a majority shareholding by a Spanish financing entity, Banco Bilbao Vizcaya Argentaria or BBVA. BBVA has a strong presence in Latin America as well as globally, which is an important factor in Argentina where the economic stability is volatile (Banco Francés 2008).

In Argentina, Banco Francés recently established a special financial service section for the forest industry, as they, according to Banco Francés' forestry sector expert Alejandro Bompadre, consider the sector to be a profitable and important niche, but yet with little professional development (Bompadre 2008). Moreover, as the prices for raw materials rise globally, and with the capacity Argentina holds within the sector, investments are crucial in order for Argentina to keep up with the competitors and the technology.

The two mostly used options and recommended by Mr. Bompadre are leasing and “Maxi Canon” leasing. The previous has normal leasing terms, adjusted to each case, and the latter proposes the option of the buyer financing a percentage of the purchase to shorten the leasing period and obtain better terms. Mainly the leasing terms apply for purchase of new machinery, but the possibility to also lease used machinery exists, yet very remotely according to Mr. Bompadre as the risks become higher: should the buyer fail to comply with the payments, it is more difficult for the bank to resell a used rather than a new machine. Leasing can be applied to domestic *and* imported products, and in case of importing, the equipment can be acquired by directly importing or by purchasing already nationalized products. (Bompadre 2008.)

The bank also needs specific documentation in order to process the request for financing. These requirements are explicitly stated in the Appendix 1, but generally include information about the company and activities, latest Balance Sheets, tax statements, financial position with regards to credit and debt history, sales figures etc.

After the credit worthiness evaluation of the soliciting company, in order to be granted the financing for leasing, the factors to take into consideration are:

- the buyer presents the Proforma invoice with the principal value of the purchase, with VAT included
- when the product is already nationalized, the total capital to calculate the canons on is fixed (with possible nationalization costs incurred to the bank included in total amount)
- all other costs, such as insurance, transportation etc., will be covered by the buyer, not the bank.

The leasing period for BBVA is usually 36 months, with fixed monthly payments – bi-monthly or bi-annual payments can be applied as well, depending on the company's activities. Usually the leasing options are only for medium or short-term operations, but contracts are negotiated according to the repayment capacities of the company and the leasing period can go as far as 49 to 61 months for agricultural and other machinery (Banco Francés 2008). When terminated the leasing period, the buyer has the purchase option for the machinery, in this case for an extra payment of 5% of the principal. In addition, when the bank realizes the purchase, a discount of 10.5% of VAT is made leaving the principal of the purchase. Of that principal, the canons are calculated, however, for each individual canon, an additional 21% VAT is added for the benefit of the bank in addition to the 18% interest rate. Moreover, the total value of the leasing agreement at maturity is roughly 36% more expensive than the direct self-financed purchase, and when total additional costs are taken into consideration, the leasing totals to 41.5% more expensive than the direct purchase. Taking into account that the cannons are not repaid on time, an additional 1.5% penalty is applied for each cannon not paid in a timely fashion. Furthermore, BBVA also charges a commission of 1.25% of the principal. (Bompadre 2008.)

As an example, let's suppose the buyer acquires a lease for a base machinery with a total value (purchase price + VAT) EUR100.000. The purchase value, thus, is EUR100.000, but the principal on which the cannons will be calculated on is EUR90.497.74 (total – 10.5% VAT). (Bompadre 2008.)

TABLE 5. Example of costs for traditional leasing by Banco Francés. Calculations made based on examples by Bompadre (2008)

Purchase value (€)	Interest rate (r)	Quota value (€), incl. (r) and VAT (21%)	Total at maturity (€)*	Exceeding cost**	Total exceeding cost***
100 000,00	18 %	3 773,16	135 833,76	35.8 %	41.5 %

*excluding purchase option and commission

**including purchase option and commission

In addition to traditional leasing, BBVA offers another less expensive option as well. Maxi Canon is a similar form to leasing, with the exception that the buyer has the option to diminish the total value of periodic payments with an initial, larger payment. For example, for a purchase of a good for the value of EUR100.000, the buyer pays USD30.000, and the leasing is then made for the total value of USD70.000. As opposed to only being more feasible option for the buyer solely, this can also be due to the buyer not to qualify credit-wise to cover a full 100% financing by the bank. Otherwise the conditions and terms of payment equal to those of traditional leasing. (Bompadre 2008.)

TABLE 6. Example of costs for Maxi Canon Leasing by Banco Francés. Calculations made based on examples by Bompadre (2008)

Purchase value (€)	Interest rate (r)	Quota value (€), incl. (r) and VAT (21%)	Total at maturity (€)*	Exceeding cost**	Total exceeding cost***
100 000,00	18 %	2 522,35	90 804,76	20.8 %	24.6 %

*excluding purchase option and commission

**including purchase option and commission

Furthermore, taking into account that the buyer decides to purchase the machinery at maturity, and that the buyer can afford an initial payment to shorten the leasing, ie. Maxi Canon, the total investment cost diminishes by 16.9% compared to traditional leasing.

Banco Francés also grants access to FONTAR financing with beneficiary terms compared to traditional financing. The general terms and conditions to access FONTAR financing will be discussed in Chapter 4.1.

TABLE 7. FONTAR financing by Banco Francés. Modified from Banco Francés 2008

Maximum Amount	Interest	Currency
600.000 ARS	Fixed Annual interest: 9.5%	In ARS

Banco Francés also provides factoring and forfaiting services, Letter of Credit financing for imports and different lines of credit for the Argentinean importer. In addition, Banco Francés offers L/Cs where the bank assumes currency risks. (Banco Francés 2008.) To find the best suitable financing option for each case, I suggest the company contact the nearest Banco Francés branch office.

3.3 Banks In Finland

Unlike in Argentina, credit markets in Finland are highly bank concentrated. Banks in Finland are experiencing competition, good liquidity and financing capacity as well as a diminishing in the general interest rate levels leading to better borrowing conditions. (Tuhkanen 2006, 221-225.) Compared to Argentina, though, Finland has a minor quantity of bigger players in the banking industry, and furthermore, the large corporations clearly stick out from the rest. In this section I will shortly discuss only the services provided by Nordea Bank and further by Nordea Rahoitus. Nordea, in addition to being a major bank within Finland is also a major player in the Nordic markets. Other big banks in Finland, mainly OP-Pohjola and Danske Bank represented by Sampo Bank most likely will provide the same type and scale of services as Nordea, but will not be further discussed in the context of the thesis: Finnish banks' traditional financing services for the most common customer case of Inderfor (mere purchase of forest machinery) do not comply as the buyer is

Argentinean, not Finnish – only receivables financing or documentary credit services apply, and in some cases banks offer guarantees or access to Finnvera guarantees.

Furthermore, should the Argentinean buyer wish to directly obtain financing through a Finnish entity, only commercial financing companies will be a probable option. The entities that are members of the Federation of Finnish Financial Services are Handelsbanken Rahoitus Oyj, Nordea Rahoitus Suomi Oy, Pohjola Pankki Oyj, Sampo Pankki Oyj and SEB-Leasing Oy (Federation of Finnish Financial Services 2008). It is also good to take into notice that Finnish banks' traditional services only apply for Finnish loan solicitor – should the Finnish seller volunteer to finance the Argentinean buyer's purchase, Finnish banks services become viable, in which case a traditional loan by a Finnish bank is a good and a less expensive option for the buyer. In chapter 6.2 Sawmill, I will provide a closer examination on this option.

Else-Maj Lindberg (2008) from Nordea Rahoitus explains that financing is considered on a case-by-case basis. Leaving aside traditional and export financing for the Finnish seller, Nordea offers forfaiting, letters of credits and other documentary credit financing. When the Argentinean company is an SME, many times the Finnish banks require a guarantee by the local bank: depending on the situation the forestry machinery itself could function as collateral, thus easing the access to credit (Skelly 2008). In addition, for the domestic seller Nordea grants guarantees and allows access to Finnvera's guarantees where the commercial risk is assumed by Finnvera; the cost of the service depends on Finnvera's country risk rating among other things. Nordea also offers services for buyer's bank guarantees; basically banks are involved in the selling-purchase operation to lower risks between the seller and the buyer, and to enhance the payment operations. Should Nordea offer forfaiting, letter of credits etc. not only the buyer's creditworthiness is assessed but also the buyer's local bank needs to be approved by Nordea. All costs are usually borne by the buyer, but also the seller can cover the costs, in which case the bill of exchange is issued only for the amount appearing in the invoice. (Lindberg 2008.)

Ms. Lindberg notes that Nordea requires Balance Sheet documents from the foreign buyer, as well as credit history information for proper analysis. Argentinean banks involved in the operation will also be evaluated, and Nordea holds a list of approvable banks in Argentina that do no limit to solely foreign banks but also local public banks may be considered. Again, a case by case evaluation is necessary.

The following covers the main instruments Nordea offers for export financing – these are also instruments that the other main banks in Finland provide as well. Unless otherwise mentioned, the information can also be found at www.nordea.fi (only in Finnish).

Nordea's Instruments

Nordea can finance the foreign buyer, like mentioned, through directly making a contract with the foreign buyer or by purchasing the buyer's export receivables. Nordea, however, only engages in direct foreign financing for large corporations as the process requires costly and heavy investigation, credit status and risk analysis (Lindberg 2008). Moreover, for the basic Inderfor's client cases, Finnish banks do not offer direct financing, but merely indirectly through the exporter.

- **Guarantees:** Nordea offers bank guarantees to cover needs for collateral, as well as on-demand guarantees where the bank agrees to pay the amount of guarantee when the beneficiary so demands without investigating whether the payment demand was made according to the contract terms: offer guarantee (for the negotiation period), advance payment guarantee, delivery guarantee and guarantees for the guarantee/after-sales period are the guarantees offered by Nordea.
- **Letter of Credit (L/C) /Stand-by L/C:** Letter of Credit is a legal banking agreement that allows importers to offer secure terms to exporters – usually the buyer's bank guarantees the seller that if various documents are presented, the bank will pay the seller the amount due, and also allows the buyer not to pay cash up front to a foreign country before receiving the documents of title to the goods purchased (Casu et al 2006, 98-99). Stand-by L/C is a guarantee given in the form of on demand L/C, but an independent contract aside to the main contract. All Nordea's L/Cs are issued under the norms of international L/C agreement UCP 600. In some cases also Nordea can agree to perform the payment, instead of the buyer's bank.

- Forfaiting: Nordea purchases the seller's receivables, thus assuming buyer risk, providing the seller with enhanced liquidity and cash flow and possibly allowing the buyer to extend repayment dues. Credit limits can be placed, e.g. so that 80% of receivables is paid immediately and 20% when the buyer repays the invoice (Helppi & Paloheimo 2005, 160). The instrument Nordea most often utilizes is transferable Bill of Exchange.
- Cash Against Documents (CAD): seller delivers commercial documents to the domestic bank (Nordea) after exporting the goods. Seller's bank then demands the foreign/buyer's bank to retain the payment from the buyer in return for the commercial documents (the buyer then collects the goods at customs against the documents) (Helppi & Paloheimo 2005, 108.) The seller bears both commercial and political risks. Nordea also offers direct CAD: instead of sending commercial documents to Nordea, the seller directly delivers the documents to the buyer's bank thus making the total process faster.

To compare, Finnish banks on average offer less expensive interest rates for loans as do the Argentinean banks. Therefore the most favorable situation for the Argentinean buyer is when the Finnish seller would volunteer to take a loan, and allow the buyer to repay the loan to the Finnish seller over time. This scenario is presented in the case study Sawmill, where the Finnish seller takes a loan, and charges extra percentage from the Argentinean buyer above the interest rate – this financing option offers better conditions for the buyer than any bank at the moment provides in Argentina.

4 PUBLIC FINANCING INSTITUTIONS AS A SOURCE OF FINANCING

Public Financing Institutions, as the name implies, have a public interest involved. In Finland, exports represent 40% of GDP (2004), thus promoting and facilitating exports and internationalization through different organizations is a major interest of the state. A more international example is the Inter-American Development Bank that finances economic, social and institutional development within Latin America and the Caribbean, and also Finland is a member country of the bank group. (Helppi & Paloheimo 2004, 14; 185.) The IDB affects through, for instance, the FONTAR program in Argentina. All in all, public financing institutions aim at enhancing business conditions, and many times offer financing for companies in situations where financing has been difficult to obtain from banks or commercial sources.

4.1 FONTAR – Argentinean Technological Fund

The Argentinean Technological Fund or Fondo Tecnológico de Argentina (FONTAR) has the objective to fund projects presented by private firms that aim at improving their competitive performance through technological innovation activities. FONTAR primarily contributes on two levels: providing financial aid to the private and productive sector, as well as strengthening other private and public institutions that associate with the productive sector, such as universities or non-lucrative organizations. The FONTAR program functions under the Ministry of Science, Technology and Productive Innovation (MINCyT) and is further executed by the National Agency of Scientific and Technological Promotion (from now on Agencia). Alongside with FONTAR, Agencia also enhances R&D projects with financial incentives through the FONCyT program. In addition to the headquarters in the capital, FONTAR counts with regional institutions called Technology Linkage Units (UVTs) which promote the program across the country, help the distribution of the funds and assist firms in the preparation of project proposals for the financing applications. (Agencia 2008; Chudnovsky, López, Rossi & Ubfal 2006, 7; 17.)

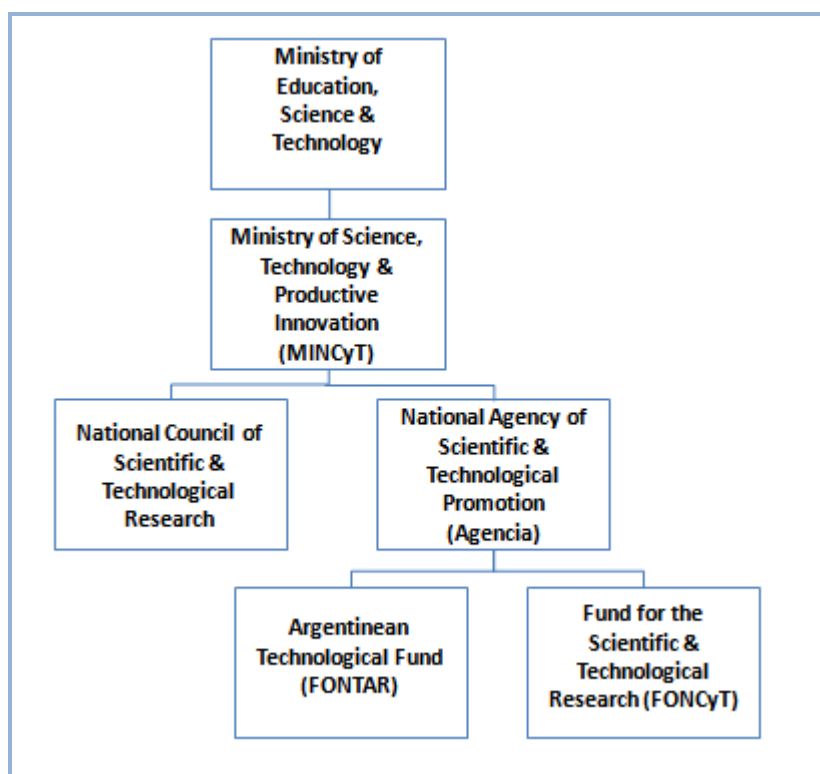


FIGURE 3. Structure of the Argentinean Ministry of Education, Science and Technology. Modified from Villavicencio & Zamalvide

FONTAR has been functioning since 1995 with the assistance of Inter-American Development Bank to finance development and research projects through credit lines directly to ease the constraints of SMEs in accessing credit in Argentina. To expand the offer of financial instruments, in 2000 FONTAR also started to manage a line of non-reimbursable contributions, or ANRs for Spanish initials, offered up to 50% of the cost of technological improvements in products and processes. (Chudnovsky et al. 2006, 17.). Moreover, the general objective of IDB to cooperate with the Argentine government has been “to make it possible for enterprises, particularly small and medium-sized enterprises that produce goods and services, to initiate, import, alter or adapt technologies in order to help increase their efficiency and competitiveness” (OVE 2005, 2).

The funds for FONTAR originate from loans of the Inter-American Development Bank and the National Treasury, but also the recovery of reimbursable funds and national and international cooperation agreements form a part of the resources. Basically FONTAR offers subsidies and fiscal credits, as well as several lines of credit to firms and institutions with innovation projects. All funds are granted through public

calls and permanent financing initiatives based on project proposals. (Chudnovsky et al. 2006, 17-19). In addition, there are multiple organizations that provide guarantees and/or access to the FONTAR financing and thus also enable joint risk sharing (FONTAR 2007, 5).

It is also important to acknowledge the fact that innovation activities in developed and developing countries are very different. While the developing countries often promote and engage in the formal R&D process, the developing countries tend to rather imitate, adapt or improve technologies already available in the market. Furthermore, imports play a larger role in technology improvements than domestic innovation activities. The instruments to both domestic R&D improvement and the acquisition of innovative technologies need to be appropriate and match the needs of the market. The previous, more scientific and R&D oriented activity promotion is attempted to be met by Agencias's FONCyT program, and the latter, technological improvements are promoted by the FONTAR program. (Chudnovsky et al. 2006, 5; 17.)

FONTAR intends to foment the technological base and innovation of Argentinean firms through subsidies (ANR) and by the means of fiscal credits. A study basing on data collected from 2001 through 2004, and 1998, and conducted by the Office of Evaluation and Oversight of IDB (Chudnovsky et al. 2006) shows that the outcomes of the FONTAR program and especially the ANR subsidies have been to some extent beneficial and have contributed to the better performance of the subsidized firms against those not having received the subsidies. All in all, the innovation intensity of the funded firms has experienced a positive impact, yet it is still impossible to determine whether the FONTAR funds have stimulated additional private funding, or even whether the firms under the program have been denied further funding by other external institutions. Although more accurate and extensive information needs to be gathered and analyzed, it is expected that, over time, the firms in the FONTAR program will demonstrate even better results. Moreover, 55% of the companies interviewed stated that the ANR allowed them to develop a project that they would not have carried out otherwise. On the other hand, some of the drawbacks of FONTAR are considered, among others, the lack of financed amounts and little support with the innovation's introduction to market. Another important factor to take into account is that 57% of the firms considered that the Argentinean economic crisis of 2001/2002 and the drastic devaluation on the peso are still the main obstacles for developing their projects. Moreover, the dilemma is difficult to overcome: the main source for

innovations and technology improvement are the imports, yet the peso has little purchase power in the international markets. (Chudnovsky et al 2006, 35; 43-44.)

Between the years 2001-2004 FONTAR's financing represented almost 10% of all R&D investments in Argentina (Chudnovsky et al 2006, 19). In year 2008 FONTAR plans to assist the technological development in Argentina by the means of fiscal credits with ARS40.000.000 and through ANR with ARS600.000 destined to projects all around the country. Compared to previous years, the credit-based type of financing has almost doubled, previously being ARS20.000.000, and in 2007 ARS25.000.000. (EbizLatam 2008a; EbizLatam 2008b.) The development of the funds is apprehensive, yet it is to be taken into consideration that the annual inflation in Argentina according to official sources is 9%, going from speculations of 22% to 30% by private unofficial studies thus increasing the demand for the amounts of financing (INDEC 2008a, 1; Tavani 2008). Despite of inflation, FONTAR seems to be an important factor in the promotion of technological improvements providing companies with an improved productivity and competitiveness (Agencia 2008). Furthermore, FONTAR is the most important financial stimulus offered by the Ministry of Science, Technology and Productive Innovation to promote technological innovation (EbizLatam 2008b.).

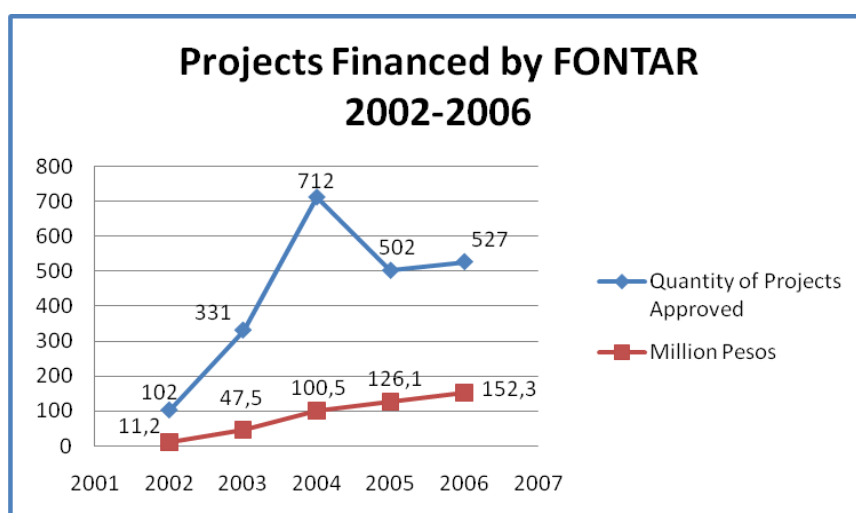


FIGURE 4. FONTAR Financed Projects 2002-2006. Modified from Agencia 2008

Taking into consideration the entire scope of methods for financing provided by FONTAR, the contribution is significant. Over the years, the evolution of financing provided has varied but is gradually increasing. Furthermore, during 2002-2006, FONTAR has approved almost 2180 projects with a total worth of more than 530 million Argentinean pesos.

4.1.1 Projects eligible for FONTAR financing and project phases

FONTAR finances different technology related improvement projects across business sectors and geographical borders in Argentina, with a central focus on the SMEs and micro firms (Agencia 2008):

- **Technological development:** prototypes or pilot projects, new products, processes, materials etc.
- **Technology modernization:** product and process improvement, personnel training etc.
- **Technological services:** strengthening the public and private service offering through improvements in infrastructure, equipment and training.
- **Patenting Costs:** for SMEs in demand for domestic and/or international patents.
- **Training and Technical assistance**
- **Technical consulting**
- **Incubators or other technology centers**

The five main segments financed are machinery and equipment; informational services; commercial services, groceries and drinks; and chemical products, that together form 60% of all projects financed. Relating to Inderfor's customer cases, "machinery and equipment" obtained 12% of all financing during the period 2002-2006, with an average annual growth of 136% of projects approved, and a total amount of 63.8 million Argentinean pesos. (Agencia 2008.)

FONTAR's involvement in the project development is a full life cycle process. From promoting innovation and improvement, to assisting in project creation, evaluating

applicants on technical, economic and financial basis to financing the projects and to evaluating and monitoring outcomes FONTAR is an influence in the process. Firstly, project feasibility and technological quality will be assessed based on project objectives and the probability of successful project execution (internal and external conditions and resources). In addition, the technical capacity of the executive party is evaluated, as well as the economic, financial and managerial state of the applicant company: in the case of subsidies, the company's capacity to meet the remaining (at least 50%) financial project requirements, and in the case of credit lines, also the company's capacity to perform the repayments will be evaluated. Finally, the economic viability of the project is assessed based on, among other factors, the expected results of the project and their impact on the company, and the capacity of the company to implement the benefits from the results. A final decision is made at termination of the evaluation process – all companies and projects have the right to claim for reconsideration should they be rejected initially. (Agencia 2008.)

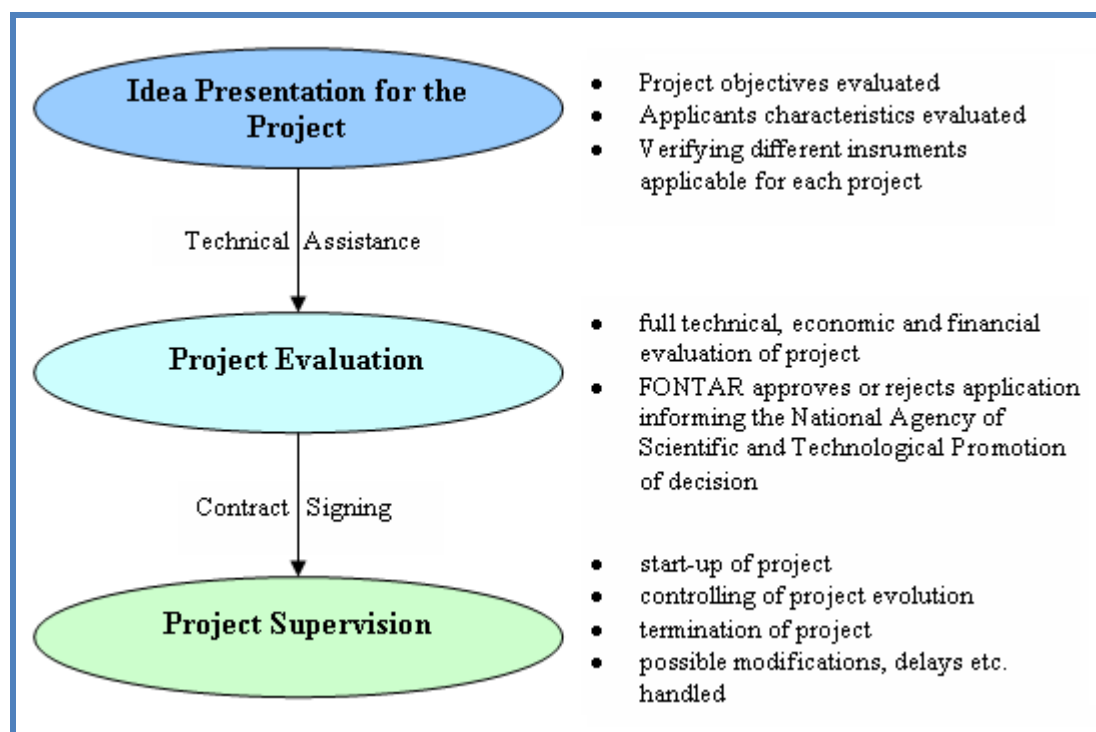


FIGURE 5. Project Phases in FONTAR financing. Modified from the Agencia 2008

4.1.2 Types of financing

The applications for FONTAR's financing are of two types: by the means of public calls with a specific annual deadline for applications, or through permanent financing initiatives that have no limitation as to application dates and are granted on the basis of specific project proposals. Figure 5 demonstrates the actual process of the application and possible execution of projects. Agencia insists that each project be carefully evaluated by FONTAR and in some cases also by other financial institutions. Furthermore, certain guidelines exist for the applying companies to fulfill – the applicants can, however, be either established firms or sole proprietorships. (Agencia 2008.)

The instruments by which FONTAR functions are subsidies (ANR), Fiscal Credit Certificates and Credits. The instruments discussed here will discard those not applicable to the cases of Inderfor, and concentrates on those that may apply. All necessary application documents are available at the Agencia website at <http://www.agencia.gov.ar>, including documents for presenting the project details obligatory for technical and economic project evaluation. Additional information in Appedix 2.

FONTAR's financing instruments are of two natures: *public calls* which will be presented prior to the *permanent financing initiatives*.

Public Calls

All different public call (“convocatorias públicas”) financing initiatives, the deadlines for corresponding applications and applications undergoing evaluation, as well as previous closed calls are announced on the Agencia official website. The forms of financing through the public calls are (Agencia 2008):

- **Non-Reimbursable Contributions or ANR (1)** for the Spanish initials. The ANR are destined to co-finance projects with innovative technologies performed by micro companies or SMEs; projects with technological developments and with cleaner environmental effects are applicable. ANRs are subventions that cover a percentage of the total project cost, leaving the company responsible for the remaining financing. In addition to the types

detailed in Table 8, FONTAR also offers funds to subsidize the creation of specific R&D units and laboratories and programs for technological consulting.

- **Fiscal Credit Program (2):** This subsidy is put in practice via Fiscal Credit Certificates that can be deducted from income taxes. The amount cannot exceed 50% of the total project cost. It is also to be noted that proposals with least proportional subsidy solicitation compared to total project cost are prioritized – all potential beneficiaries compete among each other to obtain the subsidies. Projects financed need to include either scientific or applied investigation, pre-competitive technologic research (e.g. for prototypes or pilot projects) or adaptations or improvements to the above mentioned projects.
- **Regional Credits (3):** The primary objective is to support the technical development in determined regions of the country. The amounts assigned to each zone are determined in each separate call and funds are executed by the regional UVTs – the companies in respective regions compete for the amount of financing granted so that each region has a limited amount of financing to grant.

TABLE 8. Types of Financing for Public Calls. Modified from Agencia 2008

PUBLIC CALLS	Beneficiaries	Objective	Type	Financing
ANR 600 - Technological Development (1)	SMEs	Improve productive structures and innovative capacity of companies	Nonrefundable subsidies	Up to USD 200.000 (max 50% of total cost)
ANR - Cleaner Production (1)	SMEs	Partially finance projects with environmental improvements, process efficiency and minimization of emissions etc.	Nonrefundable subsidies	Up to ARS 300.000 total, multiple projects by one company possible
Fiscal Credit Program (2)	Independent contractors, entrepreneurs or groups of companies	Promote the execution of private R&D initiatives – prototypes and pilot projects	Subsidies via fiscal credit certificates	Max 50% of total project budget
Regional Credits (3)	Determined by each call	Support technological innovation in different regions	Credits	Determined by each call

Permanent Financing Initiatives

As the name applies, the permanent financing initiatives (“ventanilla permanente”), do not have due dates for the official solicitation. Among these financing options a company can apply for subsidies (ANR) to finance patent costs or directly to finance technological modernizations or process improvements. The most relevant options considering Inderfor’s client cases are presented below (Agencia 2008).

- **Company Credits (1)** (CAE for Spanish initials) are meant for tangible and intangible technological modernization processes for companies in the primary and manufacturing industries. Credits are granted through financial intermediary institutions (IFI – Spanish initials). Intangible goods are defined as, for example, market/technology research, quality management introduction, design and engineering activity development etc.

Company Credits will not cover any general or administrative costs, restructuring of loans, working capital or real estate purchases i.e. any cost not directly related to the modernization of technology will not be financed.

1. **CAE I:** for projects that fundamentally require the incorporation of physical goods, but at least 10% of intangible assets. The acquired goods are required to be new, and when imported, originating from an IDB member country, e.g. Finland. The IFIs are responsible for the financial evaluation of the presented project, as well as for assuming the client risk and the evaluation thereof.
2. **CAE II:** for projects with mainly intangible needs. Credit risk is assumed, in equal proportion, by FONTAR and by another IFI. Projects financed include introduction of management technologies, technical developments to proceed from a pilot stage to industrial stage etc. For the CAE II, also ANRs provided by FONTAR are applicable, in which case FONTAR will also assess the financial state of the applicant company.

⇒ **ANR-PMT:** ANRs for Technological Modernization Projects are nonrefundable subsidies directed for the eligible intangible

components within the CAE II – financed projects. The company must cover at least 50% of intangibles cost.

Solicitation for both CAE I and CAE II takes place directly to FONTAR or through the IFIs by a Letter of Consult (“CCP or Carta de Consulta Previa”) – the same project cannot be presented through another bank or entity within 180 days of previous consult. IFIs take responsibility of the financial evaluation of the client and project, whereas FONTAR is in charge of the technical and economic eligibility assessment both for the client and the project.

- **Article 2 – Credits for Modernization Projects (2)** are credits for companies with projects to perform adaptations and improvements, with pending development plans to adapt technologies and introduce perfections in products and processes with a low technical risk. All direct costs with the modernization project are covered under the Article 2.

Beneficiaries include all SMEs, according to the definition in the agreement SEPyME 147/2006 (Disposición 147/2006), basing on three year annual sales of the company. Also groups of companies can apply for the Article 2 credits as long as the connection between one another and relation to the financed project is clearly detailed – institutions with non-lucrative ends or governmental entities do not qualify for the Article 2 –type financing.

A 4-year grace period is applied, during which interests do accumulate, and at the termination of the grace period the interests will be added to the loan – repayment period can be up to 12 separate quarterly payments beginning at the due of grace period. In addition, a guarantee or collateral is a mandatory requirement from the beneficiary’s behalf.

The disbursements of the benefit are performed according to the prearranged schedule. The first disbursement cannot surpass 60% of the costs of the first stage of the project schedule – the latter payments take place at agreed stages and/or at presentation of invoices.

TABLE 9. Types of Financing for Permanent Initiative Projects. Modified from Agencia 2008

PERMANENT INITIATIVE	Beneficiaries	Objective	Type	Financing	Terms
CAE I (1)	Primary and manufacturing industries	Consolidate technological modernization by financing the acquisition of <i>tangible</i> capital goods	Credits	Up to ARS 600.000, maximum 80% of eligible project costs	Max. 9 years repayment period including a 4-year grace period
CAE II (1)	Primary and manufacturing industries	Consolidate technological modernization by financing the acquisition of <i>intangible</i> goods	Credits	Up to ARS 600.000, maximum 80% of eligible project costs	Max. 9 years repayment period including a 4-year grace period
ANR-PMT (1)	Primary and manufacturing industries	Subsidize the intangible components of technological improvement projects financed by CAE II	Non-refundable subsidies	Up to USD 200.000, max 30% of CAE II credit	—
ARTICLE 2 (2)	SMEs defined according to SEPyME 147/2006	Finance projects with the objective to adapt, improve or introduce technological developments in products or processes with a low technical risk	Credits	Up to ARS 600.000	4yr grace period, including a 3-year execution period. Interest rate fixed on "Minimum Bid Rate" of European Central Bank, repayment in up to 3 annual quotas

Agencia provides multiple instruments to facilitate the innovation and technology modernization processes within the Argentinean firms of different sizes. Although application processes can be lengthy, accessing FONTAR financing can result beneficial. Moreover, Inderfor's customers should consider FONTAR as a viable source of financing in Argentina.

4.2 Finnfund

Finnfund or the Finnish Fund for Industrial Cooperation Ltd. is a Finnish development finance company that provides long-term risk capital for profitable projects in developing countries and transition economies outside the EU. Finnfund is mainly owned by the State of Finland and Finnvera, and works under the auspices of the Finnish Ministry for Foreign Affairs. (Helppi & Paloheimo 2005, 22; Finnfund 2008.)

Finnfund's objective is to enhance the economic and social development of the developing countries by financing private business action. The projects are required to involve Finnish interest, and also the developmental and environmental effects are highlighted in addition to generating profits in both countries. Finnfund's financial instruments are share equity financing, investment loans and mezzanine financing or their combinations as well as guarantees. If Finnfund is to partake in a company through equity, the shareholding cannot exceed 30% - after a few years, Finnfund is to abandon its' partnership. (Helppi & Paloheimo 2005, 186-188.)

Finnfund operates and offers business assistance within the developing countries; especially with projects in challenging markets where commercial financing is hard to obtain. To that end, accessing credit is difficult in Argentina: the private and public markets offer a few financial instruments, yet they often are expensive or otherwise out of reach for the forest industry business owners. In addition, Finnfund prioritizes projects that are likely to have positive ramifications with regards to environmental sustainability, social impact and economic efficiency and profitability increase – both for the Finnish company as well as the destination country. In addition to also prioritizing the lower income countries, a major focus is also given to Finnish middle sized companies. (Finnfund 2008.)

More specifically and according to Finnfund's classification, Argentina is defined as an upper middle income country (Arlander 2008, 4). In order for Finnfund to finance some of Inderfor's projects, many requirements are demanded. According to their strategy, Finnfund will especially strive to serve Finnish companies that are establishing an international presence along with their business partners who operate in developing countries. Be it through joint ventures or investments, Finnfund finances projects connected with the utilization of Finnish technology or know-how or projects in which Finnish companies are involved, for example, in long-term training,

licensing, operating or delivery agreements. (Finnfund 2008.) Moreover, the fact that the investment initiative needs to have a major involvement from the part of the Finnish company, and in most of the cases pioneering and innovative technology, most of Inderfor's import cases do not fit in the category. For instance, importing harvester heads or sawmills for the use of single companies in Argentina, Finnfund's financing most likely is out of reach. On the other hand, the pellet plant project fits Finnfund's requirements of sustainability, pioneering project and Finnish involvement – pellets are a rare source of energy in today's Argentina, in most part due to the lack of know-how and funds. In effect, initial negotiations with Finnfund have been made with respect to the pellet plant project.

Finnfund's Instruments

Finnfund offers various tools to finance the cooperation between the Finnish companies and the developing countries. The terms always depend on market conditions, and are evaluated on a case-by-case – basis. Moreover, economic, social and environmental sustainability and the promotion of favorable environmental impacts are the central starting points when Finnfund assesses possible investments. (Finnfund 2008.)

The forms of financing Finnfund provides are minority equity investments, investment loans, mezzanine financing and a combination of the above – since the organization works under the Finnish Ministry of Foreign Affairs, some viable tie to Finland must be demonstrated in case the industrial sponsor responsible for the project is not Finnish. The maximum amount of financing granted can accumulate up to 10 million USD, but cannot represent more than one third of total project cost. (Finnfund 2008.)

- **Equity financing**, or minority shareholding: investments made directly (or through a holding company) into the project company, Finnfund's shareholding rarely exceeding 30% of the capital of the project sponsor. In addition, Finnfund's exit terms are negotiated prior to committing funds, but mainly equity financing is meant to strengthen the company for the initial phase of the project and Finnfund usually abandons its share within a few years. (Finnfund Brochure 2008).

- **Investment loans** and terms are defined on a project basis, adjusted to the cash flow forecasts, depend on project and country risk, and varying maturities, repayment schedules as well as collaterals and grace periods can be applied, thus influencing on the interest rate. Mainly the investment loans are granted in USD or in EUR for medium or long term loans for the company's start-up, acquisition and expansion investments. Usually, Finnfund's share is up to one third of total financing needs. (Finnfund Brochure 2008).
- **Mezzanine financing**, such as unsecured subordinated loans, preferred shares and convertible bonds are also available to best suit the capital needs for the project at hand. (Finnfund Brochure 2008).
- **Guarantees** are provided in exceptional cases, i.e. to facilitate client's access to local financing options. Although Finnfund grants guarantees rarely, in 2007, two separate projects were offered guarantees with a sum value of EUR8.4 million. (Annual Report 2007.)
- **Co-financing** is offered through Finnfund's partner institutions, when Finnfund cannot solely bare the risk. For instance, Finnfund is a member of EDFI (European Development Finance Institution) and closely operates with IFC (International Finance Corporation of the World Bank), the EBRD (European Bank for Reconstruction and Development) and other development and commercial banks and private equity funds. (Finnfund Brochure 2008).

Moreover, the above mentioned options mark that Finnfund can finance multiple types and scopes of projects in various manners. It is to be noted, however, that unless the project at hand significantly improves environmental conditions or otherwise develops conditions, Finnfund most likely will not consider financing the project. Hanna Skelly (Skelly 2008), Finnfund's forestry financing expert advises that should an Argentinean company wish to be considered for financing, contact with Finnfund should be made at an early stage and multiple type of information is required in order for Finnfund to proceed with the background check and feasibility studies. Moreover, due to the extensive feasibility check, Finnfund prioritized projects that involve larger investments. Projects with involving over USD500.000 - USD1.000.000 would be investments that Finnfund might consider, but the financing decision always depends

on multiple factors, such as risks or positive social impacts. Ms. Skelly suggests that a viable financing option for Inderfor's clients would be documentary credits that require a bank guarantee: this however is mostly outside of Finnfund's services. Ms. Skelly's other suggestion depends on the Finnish manufacturer's good will if they would be willing to finance the exports, instead of the Argentinean company financing the imports. (Skelly 2008.)

The following paragraph discusses the eligibility of a company to apply for Finnfund's financing instruments.

Eligibility for Finnfund's financing

Various factors impact on a company's eligibility to be financed by Finnfund. The following will include an introduction to each of the characters demanded:

- **Connection with Finland:** always, and without exception, a tie to Finland must be demonstrated. If the executive party of the project is not Finnish, some other tie to Finland must be demonstrated (Finnfund Annual Report 2007, 35).
- **Environmental Policy:** Finnfund has high standards for environmental impact assessment, which in fact, has a great influence on the choice of projects funded. Moreover, each project being evaluated has to go through specific environmental screening performed by Finnfund's experts, and the impact on environment, both physically and socially, must be considered and discussed. Finnfund prioritizes projects that improve environmental conditions in the developing countries and transition economies, and in the future it will intent to increase investments within the sectors of renewable energy, energy efficiency, environmental technology and reduction of industrial emissions. Traditionally most of financing has gone to the manufacturing industry, however, in early 2007 the focus was shifted towards the environmental, energy and forestry sectors. (Finnfund 2008; Finnfund Annual Report 2007, 35; 40; 51.)
- **Project location:** Although a Finnish component is required in all projects, each project destination and location needs to be in the developing countries, or transition economies such as Russia. Argentina qualifies as an upper middle

income country. Recently, a large portion of the finance has terminated in China, Russia and India. Latin America, though, holds its share of the pie at almost 17% of total global investments with 40 million euros in 2007 – a total of 13 direct project investments. The figures for Latin America have grown remarkably since 2003, when only a 20.8 million € worth of financing reached the Latin industry: a half of the figure today. (Finnfund Annual Report 2007, 35; 51; Finnfund Annual Report 2003, 13.)

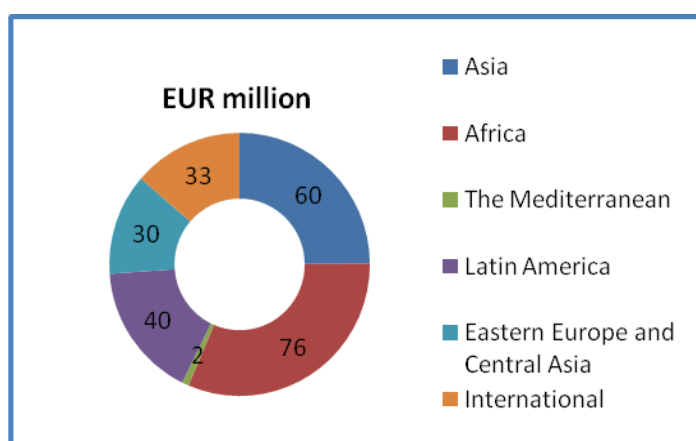


FIGURE 6. Finnfund financing by target location 2007. Modified from Finnfund Annual Report 2007

- Pioneering projects:** Although being a pioneering project is not a demand for eligibility as the previous ones, being innovative and offering new, more efficient, more profitable and more environmentally sound solutions for a developing country is definitely on the top of Finnfund's list. In fact, according to the Chairman of the Board Marjatta Rasi, the majority of Finnfund-financed projects are pioneering (Annual Report 2007, 40). Moreover, since the projects are not assessed solely by their profitability, the majority of the projects financed have positive developmental and environmental impacts. To that end, launching a pioneer project in uncertain environments and economies is risky, but Finnfund is ready to share that risk – as long as the scope of impact not only extends to profitability but also to social and environmental change.

Link to Inderfor

Finnfund's financing is mostly eligible for medium and larger scale projects that have positive developmental and environmental impacts in general. Forestry industry, however, is in the interests of Finnfund. In 2003 investments in the forestry sector were EUR10.6 million, a 13.2% of total investments, compared to EUR26 million today, the equivalent of 8.6% of total investments in 2007 (Finnfund Annual Report 2007, 51; Finnfund Annual Report 2003, 14). Unfortunately, though, it is unlikely that Finnfund would finance the most common Inderfor customer case, a mere import of forestry machinery.

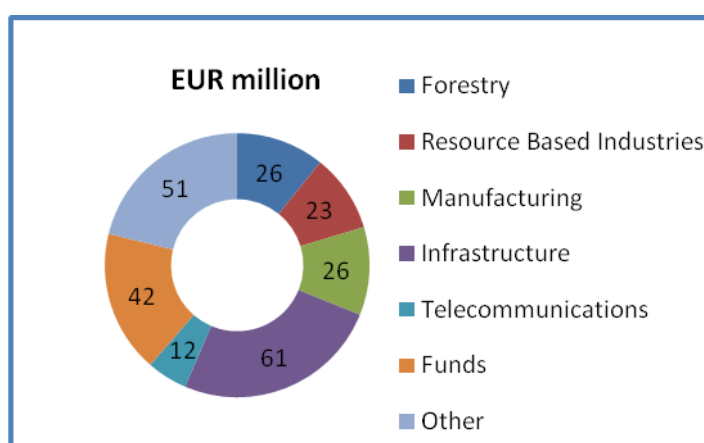


FIGURE 7. Finnfund financing by sector 2007. Modified from Finnfund Annual Report 2007

Moreover, current focus sectors for Finnfund are renewable energy including biofuels, cleantech and wood based industries including pulp and paper. As there are no standard applications for Finnfund financing, companies are encouraged to get in touch with Finnfund's professionals at an early stage. (Arlander 2008, 5). The Pellet Plant project, presented in chapter 6.3, is a viable project and eligible for Finnfund financing. Furthermore, initial negotiations have been made, but as the process is time consuming and careful prefeasibility studies are in order, no specific contracts have been signed yet. In this case, the process has been easier as the main executor and solicitor for the Finnfund financing is a Finnish company, and the project is expected to have positive developmental and also environmental ramifications, especially in Argentina.

4.3 Finnpartnership

Finnpartnership supports feasible and commercially viable partnerships between companies in Finland and in developing countries with the objective to enhance economic growth, diversify the economy and exports, and reduce poverty in developing countries. Finnfund is responsible for the management of the business partnership program and financed by the Ministry of Foreign Affairs of Finland, and thus both play a big role for Finnpartnership. However, Finnfund and Finnpartnership are not directly connected. For instance, although desired, Finnfund might not always finance projects that receive support from Finnpartnership. (Finnpartnership 2008; Arlander 2008, 12.)

Finnpartnership's Services

Finnpartnership provides Business Partnership Support Facilities, Matchmaking services and Advisory services mainly targeted at Finnish companies – these services complement Finnfund's direct financial aid with so called extra services, both advisory as well as indirect financial aid. Matchmaking services will not be discussed however, as those do not propose direct financial solutions and rather overlap services offered by Inderfor. The focus in this section, therefore, will be on the Business Partnership Support Facility. The matchmaking and advisory services might come in handy for the Finnish company, though, when Inderfor's resources cannot guarantee full informational or project planning support – furthermore, Finnpartnership provides its services free of charge. (Finnpartnership 2008.)

As to project and company eligibility, Finnpartnership, similar to Finnfund, requires some link to Finland. The target country also needs to be listed as a developing country by OECD's Development Assistance Committee (DAC) – all countries in Latin America partake in the target. Although Finnfund and Finnpartnership often function hand in hand, as opposed to the previous, Finnpartnership has separate application forms for the Support Facility. It is to be noted that the final decision on the allocation of the facility is made by Finnpartnership's managerial and supervising authority, Finnfund. For the same reason and to obtain best efficiency, Finnpartnership encourages companies to contact Finnfund and Finnpartnership staff at an early stage of the project planning. (Finnpartnership 2008; Finnpartnership Presentation 2008.)

- **Advisory services:** the planning and financial advice service mainly refers to the assistance and network cooperation in order to facilitate the companies search for financing and external experts to assist in the planning phase and implementation of the projects (Finnpartnership 2008).
- **Business Partnership Support Facility:** a financial support facility intended to cover a part of *different phase expenses* of commercially viable projects in developing countries. The facility is intended for long-term business partnerships, such as pilot projects or transferring know-how, to cover set-up phase expenses, or for already existing projects in developing countries. Support is also available for the training of employees and for capacity building of existing companies in a developing country. The maximum amount of grant for one project is EUR250.000, and can be applied to several phases of project but the support must be allocated entirely until the September of the following year the support was granted. Note that financing the actual purchase of goods is not viable for this type of financing per se; related costs incurred can be covered, especially for pilot type projects. (Finnpartnership Presentation 2008.)

Moreover, companies can apply for the grant type of financial support for the planning, development and implementation phases of commercially viable projects. According to Finnfund's Annual Report (2008), during 2007 Finnpartnership received 107 applications, of which 79 were granted the financial support for a total worth of EUR3.9 million. Out of the financial support projects approved during 2007, 16% of funds were directed to the upper middle income countries in which also Argentina belongs to; in fact according to Finnpartnership's statistics, during the same year only one project, a partner identification study, was partly supported in Argentina (Finnpartnership 2008). On the other hand, in total the upper middle income countries received 20% of direct business partnership projects (Finnfund Annual Report 2007). As Finnpartnership was founded in 2006, there still is little room to make assumptions on financial target evolution or future direction of the funds.

The applicant for the Financial Support must convey sufficient financial and human resources to implement the project in addition to adequately proving a track of commercial records corresponding to the operations and sector for the project at hand. Furthermore, the applicant must be the responsible actor for the implementation of the project. After submitting the application and the required forms, the Support Facility Committee will assess the application and an indicative decision will be given within 2 to 4 weeks. (Finnpartnership 2008; Finnpartnership Presentation 2008.)

Primarily Business Partnership Support Facility is granted for approved project costs and settled after the costs have incurred. The facility can cover up to 70% of costs, the amount however depending on the size of the applicant company and the DAC classification of the target country. The supports are granted on the following basis (Finnpartnership Presentation 2008.):

- Eligible applicants are Finnish companies and associations seeking long-term partnerships in developing countries, research facilities, universities or similar registered in Finland.
- Projects are required to be economically sustainable.
- Applicants are evaluated on developmental effects, and projects should comply with international social and environmental standards.
- Preference for financing SME's.

TABLE 10. Finnpartnership grant coverage amounts. Modified form Finnpartnership presentation 2008

Applicant/ Coverage Amount	Low Income Developing Countries	Other Developing Countries
SME's and other small organizations	70%	50%
Other Companies	50%	30%

Moreover, some of the costs incurred that are entitled for Finnpartnership grants can be counted for as: expenses related to identifying business partners, pre-feasibility or Social and Environmental Assessment studies and business plan preparation expenses.

For existing projects the grants can be directed to cover employee training expenses or the utilization of short-term external experts (Finnpartnership Presentation 2008.)

Although Finnpartnership's services might not directly serve Inderfor's interests or Argentinean financial needs, it is a good organ to keep in mind for future changes or needs – some expenses could be covered, especially for the Pellet Plant project.

4.4 Finnvera

Finnvera is a state owned, specialized financing company aiming at developing business at the many stages of company life-cycle and growth. Finnvera provides its clients with loans, guarantees, and export financing services beginning with the start-up phase to growth phases both domestically and internationally (Helppi & Paloheimo 2005, 18). As Finnvera is entirely owned and largely funded by the State of Finland, and functions under the auspices of the Ministry of Employment and the Economy, it allows Finnvera to take higher risks and share risks with other financiers. Finnvera offers options for companies whose own resources are scarce or collateral does not suffice to obtain financing in the commercial market – in essence, Finnvera supplements the commercial financing markets. (Finnvera 2008.)

Finnvera's objectives are to increase employment and start-ups in Finland, enhance regional development and foment Finnish exports and internationalization. In fact, according to Finnvera's Annual Review of 2007 (2008), out of total Finnish export guarantees, 1.9% were granted by Finnvera, and as much as 4% of total export guarantees to countries with a political risk. Furthermore, the value of Finnvera's export based guarantees totaled almost EUR1.180 million in 2007, of which 28% were directed towards forest industry and 19% towards Latin America (Finnvera Annual Review 2007, 8-9.) However, the overall demand for Finnvera's guarantees fell in 2007. This is mainly due to two factors: firstly the uncertain economic outlook and conditions in the American market reflects into a caution to invest especially among the SMEs. Secondly, the liquidity and capacity of commercial and international banks to arrange financing reflected to the decline of financing demanded from Finnvera. (Finnvera Annual Review 2007, 6-7.)

Finnvera's Instruments

Finnvera promotes the strengthening of Finnish business by offering different types of financial aid. Moreover, Finnvera provides companies with loans, guarantees and export credit guarantees to cover the companies' financial needs through start-up, growth, and internationalization phases. The following presents shortly some of the different tools Finnvera provides to promote internationalization and exports of Finnish companies – I will, however, discard the instruments for domestic and start-up financing hence they do not directly apply to Inderfor's business partners or their financial needs; only export financing is suitable for Inderfor's projects at hand, and even further, Inderfor and the Argentinean business partners do not meet Finnvera's requirements in the other categories. It is worth noting also that for example internationalization loans and guarantees are not granted for mere exports, and also to the most part exclude firms that operate in the forest industry. (Finnvera 2008.)

Guarantees: Finnvera offers absolute collateral for corporate loan financing or for strengthening equity; the guarantees can be used to back up credits from banks or other lending institutions. Among the guarantees, Finnvera again applies the exclusion of forestry industry. Of the guarantees offered by Finnvera, the only option that may apply for Inderfor's business partners is the *export guarantee*: a tool to cover domestic needs for collateral in exports, for both pre-delivery and post-delivery financing. This type of guarantee can be used for loans i.e. for financing the buyer's payment period or for covering manufacturing costs. No limits are set for eligibility with regards to project size, however, normally guarantees for exporting to foreign subsidiaries are not available, unless the end client is outside the Group. In addition, no sector restrictions apply for export guarantees. (Finnvera 2008.)

Export Credit Guarantees: Export Credit Guarantees cover risks related to the buyer or the borrower, also called commercial risks, and risks related to the buyer's or borrower's country called political risks. The most common commercial risks include bankruptcy or other type of insolvency, whereas political risks refer to rescheduling of debts, war or other restrictions. Finnvera is an official Export Credit Agency and all guarantees granted are approved by the State of Finland. When export credit guarantees are granted, environmental impacts and risks are taken into account as part of the overall risk assessment of guaranteed projects. The assessment of the total risk

of projects includes a review of the project's potential environmental impacts. Most application forms can be found online at www.finnvera.fi. (Finnvera 2008.)

Applying for Finnvera's Export Credit Guarantees also places some determinants as to the actual financing terms of the contract. Terms of payment need to follow the guidelines of OECD Consensus Arrangement that also define interest rates, credit periods (must be two years or longer) etc. In most cases, at least 15% of the contract value needs to be paid at cash, and credit value cannot exceed 85%; no grace periods are allowed. The buyer's creditworthiness is assessed based on financial statements and credit reports. Guarantee premium is charged as a flat fee on the value of exports declared to Finnvera, but also depend on buyer's creditworthiness and credit period being determined on a case-by-case basis. In most cases also a handling fee is applied for continuous delivery guarantees and for application handling costs. (Finnvera 2008; Finnvera Brochure 2006.)

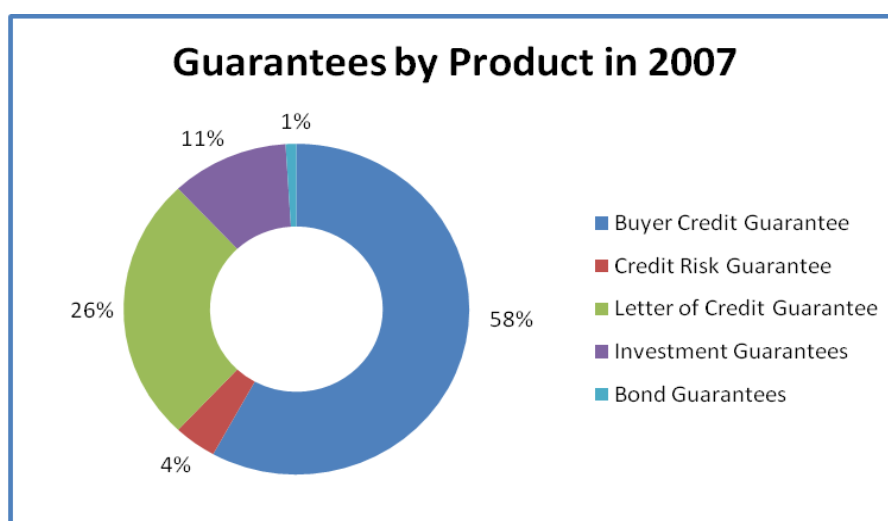


FIGURE 8: Finnvera's Foreign Risk Taking 2007. Export Credit Guarantees that came into effect by product. Total EUR645.9 million. Modified from Finnvera Annual Review 2007

The Export Credit Guarantees provided by Finnvera are various, but the most common ones include Buyer Credit, Letter of Credit, Investment and Credit Risk Guarantees (see Figure 8), which are presented below. In addition, Finnvera offers,

export receivables guarantees for short-term exports, bank risk guarantees to cover risks associated with the foreign bank, bond guarantees, finance guarantees and raw material guarantees. (Finnvera Annual Review 2007).

- **Buyer Credit Guarantee:** a security to *the lender* to cover risks arising from the buyer, the buyer's bank or country. While the Finnish exporter receives payment in cash for the goods sold, the credit risk is transferred to the lender and partly to Finnvera. Usually, buyer risks are covered up to 90%, bank risks up to 95% and political risks up to a 100% (Finnvera 2008.)

When the seller wishes to grant the buyer with a repayment period exceeding two years, a long term financing is in question. This line of guarantee can be used when financing the export of capital goods through medium or long-term credit arrangements, such as individual credits, bank or project-related credits or e.g. leasing or forfaiting. Buyer Credit Guarantee is also applicable for short-term exports if the buyer presents a transferable credit instrument i.e. bill of exchange or promissory note. In these cases, the Finnish seller can agree with the local bank and the buyer of a bill of exchange and then further arranged for a Finnvera buyer credit guarantee. This type of guarantee can be granted to both domestic and foreign financial institutions. (Helppi& Paloheimo 2005, 157; Finnvera 2008.)

⇒ **LCF Guarantees or Local Currency Financing** is a program under the Buyer Credit Guarantee line which can be applied when the financing of the export transaction takes place in the buyer's country and with the local currency, however, other than the high income OECD-country currency. This option enables the buyer to reduce the effects of exchange rate fluctuations. LCF guarantee are considered on a case-by-case basis to countries with sufficiently developed financial and foreign exchange markets. (Finnvera 2008.)

- **Letter of Credit Guarantee:** Finnvera's Letter of Credit Guarantee provides cover for *the bank* against commercial and political credit risks involved in confirming a documentary letter of credit in export transaction – the risks are jointly shared with the bank and Finnvera. The L/C must be irrevocable and comply with international standards. Both Finnish and international banks can

apply for this type of guarantee considering that the L/C is granted for the Finnish exporter. (Finnvera 2008.)

- **Investment Guarantee:** a guarantee for an investor to protect foreign investments against political, and in some cases commercial, risks. The guarantee is granted for three to twenty years, and must foster economic development in Finland and in the host country. (Finnvera 2008.)
- **Credit Risk Guarantee:** insures the Finnish exporter against credit loss related to an export transaction. The guarantee covers either the risks due to cancellation of the delivery contract prior to the delivery or the credit risk arising from commercial risks or political risks. This type of guarantee can be granted for individual transactions or continuous deliveries, and for short-term or medium/long-term periods, and usually covers commercial risks up to 90% and political risks to a 100%. (Finnvera 2008.)

Finnvera, as the other similar public financing institutions, has a strategic focus on the SME's and their growth and international presence. In the case of Inderfor and their business partners, only the Guarantees and Export Credit Guarantees are a suitable form of Finnvera's aid. Moreover, export credit guarantees are targeted for Finnish export companies and their lenders to solve the need to protect against political and commercial risks of export financing and international investment. (Finnvera 2008.)

As of 2.7.2008, Finnvera rates Argentina to have very high risks (rating 7/7) both short term and middle term – the country has very poor credit quality. In addition, long term financing is off cover. For medium term financing the repayment period is three years maximum, and issuing banks will be approved on a case by case basis. (Finnvera 2008). One of the factors that might affect Argentina's continuously poor ratings in Finnvera's charts is the Paris Club, the forum of public creditors, where Finnvera acts as the representative of Finland. When Argentina's economy defaulted in 2001, the country had extensive accumulated debts from international sources. After the crisis Argentina proposed a plan where, instead of repaying a full 100% of the loans, Argentina would restructure the loans and only repay them partly. The Paris Club along with a few smaller creditors were the only institutions to not comply with

the proposed arrangement. As can be demonstrated in the case of Finnvera, this in the long run also affects the private sector as financing institutions rank Argentina low with regards to creditworthiness status and thus are careful with granting financing. Currently, however, Argentina is negotiating the full repayment of the debts to the Paris Club, which is expected to improve Argentina's position in the risk ratings and bring better conditions also to private lenders. (Catalano 2008.) For example Argentina's neighboring country Uruguay is rated a 4/7 ("decreased credit quality"), and in 2007 accounted for 35% of Finnvera's guarantees that came into effect and was the 3rd biggest single country with regards to export financing. (Finnvera Annual Review 2007, 9-10; 16.)

Although Argentina is a challenging market, Finnvera does not exclude any project without analysis. Requirements include that the bank issuing the financing is an international bank with experience on export credit guarantees as well as on Argentina, mainly to assure trustworthy information and guarantee management. As Finnvera shares the risks, the financing bank needs to be known from the beginning of the project. Additionally, Finnvera requires that an impartial study be conducted on the project feasibility as well as on environmental impacts. (Finnvera e-mail 2008.) Finnvera, however, is a significant financing institution for the Finnish exporters, and needs to be taken into account for larger projects, especially in this case for the Pellet Plant project.

4.5 Comparing the public financing institutions

To clarify the service offering of the public financing institutions, both in Finland and in Argentina, a short sum up is in place. As a major difference compared to most banks and commercial financing institutions, public financing institutions might finance projects that otherwise would not obtain viable financing through the commercial channels.

In this case, the presented public institutions similarly finance projects related to technological, social and developmental improvements: altogether, emphasized areas are SMEs and their competitiveness, environmental sustainability and commercial enhancements.

TABLE 11. Comparing public financing institutions.

ORG. FACTOR	FONTAR	FINNFUND	FINNVERA	FINN- PARTNER
OBJECTIVE	Improve competitive performance of private firms through technological innovation activities.	Enhance economic and social development of the developing countries by financing private business initiatives.	Increase employment & start-ups in Finland, enhance regional development and foment Finnish exports and internationalization.	Enhance economic growth, diversify economy and exports & reduce poverty in developing countries
SERVICES	1) Subsidies 2) Credits.	Long term risk capital: 1) Equity financing 2) Investment loans 3) Mezzanine financing ,or combinations	1) loans 2) guarantees 3) export credit guarantees.	1) Business Partnership Facility (indirect financial aid) 2) matchmaking 3) advisory services
PROJECTS	e.g. - technological development - technology modernization - technological service projects.	Wide range: - mainly manufacturing industry and infrastructure - future focus on environmental technology, forestry, renewable energy...	Company's - start-up - growth phase - internationalization phase	Feasible and commercially viable, long-term partnerships between Finland and developing countries.
AMOUNTS	Up to USD200.000 per project.	From USD500.000 above per project.	To cover collateral needs, share risks.	Max. EUR 250.000, 30-70% of total project costs.
ELIGIBILITY	Technical, economical and financial basis of project evaluated (no specific factors or determinants provided to the public). Evaluations on a case-by-case basis.	Finnish interest involved, positive developmental and environmental effects, project location in developing country or transition economy. Evaluations on a case-by-case basis.	On a case-by-case basis: environmental impacts evaluated, risk assessment (buyer, buyer's bank...), A Finnish interest involved.	- link to Finland - project location in a developing country - implementing company registered in Finland, record history of operations in the sector.
APPLICATION	Application directly to FONTAR of through banks, updated forms available at Agencia website.	Application by contacting Finnfund team at early stage of project.	Applications at Finnvera website.	Application by forms for Business Facility.
ADDITIONAL	In case of subsidies, the company must meet 50% of project costs	Preferences in pioneering projects and middle sized companies. Extensive environmental evaluation. Close cooperation with Finnpartnership.	No direct financing instruments apply for Inderfor's cases, only guarantees.	Finnfund is responsible for management and decisions. SMEs preferred

5 COMMERCIAL FINANCING COMPANIES AS A SOURCE OF FINANCING

Commercial financing companies provide financing to individuals and companies mainly by different types of loans. A distinction is usually made between sales finance institutions (loans made by seller or retailer to fund purchases), personal credit institutions (providing loans for “non-prime” customers that cannot access bank credit) and business credit financing companies that use factoring and leasing to finance business activity. (Casu et al. 2006, 57.) The following covers a brief example of Coface, a business credit financing house, and presents a few other institutions. Argentina, though, still seems to have a rather underdeveloped market in commercial financial institutions when it comes to business financing solutions.

5.1 Coface

Coface is a French organization that offers financial and other assistance for companies to facilitate business globally. Coface’s main focus is on trade receivables financing, management and protection, including insurances, factoring and business information services. Coface has operations in 65 countries, also in Argentina but not yet in Finland. However, Coface works with all companies across geographical borders, sectors, size or activity. (Coface Corporate Brochure 2007, 6-9.)

The majority of Coface’s clients are small and medium sized companies. Moreover, the services Coface provides are not directly related to financing purchases, but offer a good supplement.

- **Trade Receivables Protection:** Coface’s trade receivables protection or credit insurance covers the clients’ accounts receivable against customer default risk (Coface Corporate Brochure 2007). One of the main concerns of the Finnish forestry manufacturers is the default risk – the customer’s disability to meet the payments and terms. Not only are the purchase prices high for the Argentinean customer, especially in the light of the weak peso/euro relation, but in addition the Finnish payment terms are rather demanding for the buyers. Through trade receivables protection Coface could guarantee the payment for

the Finnish manufacturer in case the Argentinean buyer defaults, thus reducing the investment risk for the Finnish party.

Depending on company size and conditions, Coface offers different kinds of solutions to protect the receivables and help companies manage their customer credit risk, such single risk covers to cover commercial or political risks (Coface 2008).

- **Trade Receivables Financing or factoring:** combined with Coface Trade Receivables Protection offers 100% full recovery in case the customer becomes insolvent. The Argentinean Coface does not yet offer factoring. (Coface 2008).
- **Trade Receivables Management:** Coface handles receivables and debt collections in B2B and B2C markets and predicts commercial and financial behavior of buyers in the latter environment. In addition, invoice management can be appointed to Coface directly. (Coface Corporate Brochure 2007.)
- **Business Information:** Coface counts with an extensive international network of credit information entities and CreditAlliance partners to offer its clients with accurate and reliable business information. Coface also has a rating system for countries as well as for business sectors and companies. (Coface Corporate Brochure 2007.)

As of 8.7.2008 Coface rates Argentina as a country in their C category, being the second most risky category out of 7. Moreover, Argentina is rated with very uncertain political and economic outlook and a business environment, and many troublesome weaknesses can have a significant impact on corporate payment behavior.

Furthermore, corporate default probability is high. However, the country rating has had positive implications since June 2007. As a matter of fact, the business climate, despite of the country rating, is rated as a B since 2008: the business environment in Argentina is mediocre, meaning that the availability and the reliability of corporate financial information varies widely. Debt collection can sometimes be difficult and the institutional framework has a few troublesome weaknesses. Furthermore,

intercompany transactions run appreciable risks in the unstable, largely inefficient environments such as Argentina. (Coface 2008.)

When additional insurance or guarantee is required, Coface can supplement the financial offering. Similar to the services provided by Finnvera (presented in chapter 4.4), Coface represents a commercial choice for a financing institution.

5.2 Other

Argentina has only a few commercial, non-bank financial institutions. According to INDEC (2008b), the amount of commercial financial companies diminished from 19 in 2001 to 16 in 2005, and the existing commercial financial institutions today tend to offer services oriented towards personal financing instead of business solutions.

The Capita Corporation

One of the business financing institutions in Argentina is The Capita Corporation (TCC). Established in 1995, and backed by Banco Comafi, The Capita Corporation was the first company in the country focused on providing leasing services. Today, The Capita Corporation is a member of the Argentinean Leasing Association together with banks, automotive and technology leasing companies. (The Capita Corporation 2008.)

TCC is for the most part oriented towards SMEs for the acquisition of productive assets, but also larger corporations can access TCC's leasing services. An integral risk analysis evaluation is conducted in order to access TCC's financing – granting funds, however, is faster than through public institutions or banks although the required documents resemble those listed in Appendix 1. The types of leasing, among others, include Motor Leasing for transport unit acquisition, Global Leasing for worldwide purchases and imports, Easy Leasing to obtain funds within 48 hours for purchases minor to ARS250.000 and Smart Leasing for flexible contracts to suit each company's unique financial needs. In general, TCC's lease contracts are adjustable with combinations of fixed and variable interest rates, repayment periods from 12 to 61 months, up to 100% financing of the purchase and flexible purchase options if one is desired. (The Capita Corporation 2008.)

CGM Leasing

CGM Leasing offers leasing to both private people as well as companies, and currently is the only leasing company in the Argentinean market not backed by a bank, but by another financial institution, Grupo Financiero Cohen. CGM also claims that granting leasing through the company takes less time and less bureaucracy than with the competitors. In addition, CGM offers leasing for capital goods, properties and intangible goods. (CGM Leasing 2008.)

CGM Leasing offers Leasing Financiero, Leasing Operativo, Sale & Lease Back and Contract Renovation to match Inderfor's business partners' needs. Leasing Financiero implies so called traditional leasing with a purchase option, whereas Operational Leasing refers to a situation where the quotas are of smaller amount but the purchase option is more expensive. Sale & Lease Back on the other hand secures the original proprietor of the equipment with the ownership of the good with a repurchase option. In addition, renovation contracts are available to extend the existing leases, and CGM Leasing can also handle all importing, nationalization, insurance and other documents and costs. Contract terms and periods are adjusted to the company's cash flow. (CGM Leasing 2008.)

CIT Group

Also CIT Group offers leasing services in Argentina to companies. The Group on a global level offers multiple types of financing, but the services in Argentina are limited solely to two types of leasing: Leasing FMV or operational leasing, with an option for contract renovation or negotiable purchase option at termination of leasing contract, and Financial Leasing, meaning that a purchase option is negotiated when signing the contract. (CIT Group 2008.)

Commercial financing institutions in Argentina do not yet offer a wide range of products, but rather focus on leasing or advisory services. Although these institutions seem to enable faster access to financing than the public institutions and banks, they require equally – if not more – demanding credit status, collateral to pledge or challenging contract terms from the soliciting companies. Furthermore, the commercial institutions operating in Argentina do not offer a viable solution against the problems of accessing credit, but are an option aligned with those of banks and public institutions.

6 STUDY CASES – FINANCING FOR VARYING NEEDS

Inderfor has been struggling with a paradoxical dilemma for long. A definite interest towards Finnish forestry equipment, ranging from harvesters and forwarders to chippers and crushers, is detectable in Argentina, yet the means to finance such purchases are not available for the forestry operators. In the framework of the financial institutions presented in chapters 3, 4 and 5, the following study cases take a hands-on approach to further examine different financial solutions for the varying cases. All the study cases are actual – ongoing or already terminated – projects of Inderfor and their business partners, all with different needs but with the same problem: accessing credit in Argentina is difficult and requires time-consuming evaluation on different solutions. The following cases give one type of financial solution with regards to each case. The study cases can function as a solution base for future cases, but it should be kept in mind that no one best solution exists in general, but rather each case is a unique situation requiring a unique solution.

6.1 Harvester Head

One of the main challenges for Inderfor's growth is the lack of financing solutions for the harvester and harvester head procurement. Being the most demanded product, Inderfor currently counts with 4-5 possible customers with this same type of situation. In this specific case, the product combination delivered from Finland is a used harvester base and a new harvester head for the use of an Argentinean company in the province of Misiones. According to the Argentinean company owner and the buyer, Mr. Vera, (2008), the company decided to expand its operations into a new area with the purchase of the harvester head; up until now the company has primarily worked in the transportation area of forestry, but now wants to invest in harvesting technology to add value to their operations. (Rodriguez 2008b; Vera 2008.)

One of the major challenges Inderfor and the business partners have faced, is the high price of Finnish forestry machinery opposed to that of, e.g. Brazilian machinery (Rodriguez 2008b). Mr. Vera, however, opted for Finnish machinery for multiple reasons. First of all, he has had a chance to personally witness the operations and high efficiency of Finnish machinery all in the Nordic countries, Austria and most importantly in Uruguay and the Argentinean province of Misiones, which is one of the

biggest wood producer states in Argentina. Mr. Vera took notice of the durability and quality of the Finnish equipment, as well as the compatibility with the Argentinean wood material. For comparison, he has also witnessed the same type of equipment, but from a Brazilian origin, being worked in the same zones in Argentina, and he noticed that the quality of those machines could not compare to the Finnish ones – with very little use, Mr. Vera mentions his fellow colleagues told him, the Brazilian equipment deteriorates extremely fast. Not only the quality, but also a major influence for Mr. Vera to opt for Finnish machinery, was the rate of after sales service: almost non-existent with the Brazilian providers but efficient with the Finnish manufacturers. Moreover, he chose to work with Inderfor and to buy Finnish equipment due to positive references from other forestry operators in Argentina, who have received excellent after sales service through Inderfor and have proven the quality of Finnish machinery. The combination of cost-quality relationship and the after sales service therefore convinced Mr. Vera of this option. (Vera 2008.)

Mr. Vera decided to purchase and import a new harvester head and a used machine base. Primarily he opted for a used base since it is simply a less expensive option. In addition, the normative life time for a base machine, or the period in which the machine should work flawlessly, is between 8-10 years according to Mr. Vera – the utility is worth the buy, especially when Inderfor's after sales service guarantees operation security for a long time. He also believes in the Finnish know-how and experience in the industry to back up the quality of his purchase. (Vera 2008.)

On the other hand, obtaining an entirely new harvester head was a very conscious choice. The head is the part of the equipment that suffers most damage at operation, and repairing the harvester head opposed to the base is a more complex theme, therefore, optimal quality and life time were the main characters sought in the purchase. (Vera 2008.)

The above mentioned were only a few reasons to procure the combination outlaid. Whatever the combination, used or new, Mr. Vera however is not alone in his rationing. According to Darío Rodríguez (2008b) of Inderfor, these are the reasons why also other buyers in Argentina opt for Finnish equipment through Inderfor: quality, after-sales service, long life cycles and the know-how and experience of the Finnish forestry industry. (Rodríguez 2008b.)

With regards to the actual financing solution, the Argentinean buyer is willing to self-finance part of the purchase directly, but when the total value of the purchase reaches approximately USD250.000 total self-financing is not a viable solution. In this case, the harvester base is bought as used and renewed; only the harvester head will be bought as new. This situation brings up other dilemmas: on one hand, financing for used machinery is very scarce, if not impossible to obtain in Argentina and on the other, also the local customs places additional restrictions to the import of the used machinery, such as a 2-year re-selling restriction, and an import tariff of 28% for the used machinery. Also restrictions apply as to *how* the combined machinery is to be imported; in this case, the Argentinean buyer needs to purchase another *used* harvester head, which is then combined and jointly imported with the used harvester base, and the *new* harvester head needs to be imported separately. The new harvester head of approximately USD130.000, however, has a 0% tariff. (Rodriguez 2008b; Vera 2008.)

Initially the scenario placed the search of financing on two levels. The focus of the options would have needed to be on the more profitable one:

1. financing for the *entire joint purchase*, or
2. financing for *only the harvester head*

In this case however, the second option is the only viable one due to the import restrictions placed by the Argentinean customs. In addition, obtaining external financing for the used machinery became an unviable option; fortunately Mr. Vera is able to self-finance the total purchase of the used machinery, and thus external financing is to be applied only for the acquisition of the new harvester head. It is important to notice that purchasing used machinery is not an unusual scenario. Darío Rodriguez (2008b), Inderfor's founder and Managing Director, mentions that Inderfor has many clients similar to the case at hand, all lacking funding. The client cases range from those only in need of a harvester head (to be installed onto their existing excavators) to clients with needs of a joint purchase of a harvester head and the base, be it used or new. In these cases, entire joint purchase financing for new machinery would be the easiest to obtain, due to lesser risks to the lending institution. (Rodriguez 2008b; Rodriguez 2008c; Vera 2008.)

The case company at hand has a sound and clear equity according to Mr. Vera's accountant (Gonzalez 2008). Previously they have financed purchases through secured

loans granted by banks, and at the moment are using leasing, an option offered directly by a machinery provider, as a financing method for a few trucks they have. As an exception to many other Argentinean firms, the company at hand has rather transparent and sound accounting activities and documentation, and therefore obtaining further credit or financing should not become a problem – to lower commercial risks, financial institutions tend to require extensive documentation and financial screening prior to granting credits or financing to a company, especially SMEs. In addition, Mr. Vera's company has a clear credit history as they have always been able to follow the repayment schedules without delays, due to also selectively and carefully choosing the best financing option for each case. At the moment, all of the company's liabilities are in Argentinean pesos, and taking into consideration that the country faces high inflation, pesos are the best form of financing with regards to the future value of money. For a large part Mr. Vera's financing has been granted by Banco de la Nación Argentina – a bank with which Mr. Vera has had a long relationship. A few of the benefits he currently has with BNA are lower interest rates due to repayments made at a timely fashion as well as concentration of multiple loans to the bank. The benefits gained from relationship banking could be extended for this case as well. (Gonzalez 2008; Vera 2008.)

More specifically to the financing, the company owner was initially looking to obtain 70% of the total amount to be financed externally and ideally the credit repayment period in quotas would approximate 60 months. The amount of external finance, however, became affected by the customs restrictions and the difficulties in obtaining credit for used machinery. Mr. Vera decided to self-finance the acquisition of the *used* harvester combination, and seek external financing solely for the *new* harvester head. The proportion of financing thus shifted from the initial 70% external/ 30% internal financing to approximately 50/50. He is specific about selecting the most feasible financing option for his investment, thus he prefers no specific option yet is open to finding the most suitable one: as the need for equipment renewing in his company is constant, the company's capital assets have been acquired through many different types of financing and institutions. This purchase of the harvester combination is also the first time he is importing machinery, and the first time cooperating with Inderfor. (Vera 2008.)

The financing options presented for Mr. Vera's selection are detailed in the Appendix 2. The company has a multiple year relationship with Banco de la Nación and so the

solutions provided by the bank were on the top of the list, great part due to faster access to the credit. FONTAR's permanent initiative financing would have been a viable option as the purchase of the new harvester head complies with the eligibility terms. However, the application process is lengthy, and Mr. Vera needed the equipment in his use rather quickly. In addition, a call to the Banco de la Nación branch manager in Mr. Vera's bank revealed that the bank had experience and an on-going process in the FONTAR program: moreover, applying for FONTAR credit through BNA would have been accessible. The branch manager advised, however, that in the framework of the time constraints in Mr. Vera's case, other options be analyzed due to the time-consuming processes in the public institution.

"Línea 400" of BNA is a temporary line of credit designed for SMEs. As a public bank, BNA has a mission to foment the developments of the micro and SME companies, and especially fund projects to enhance technological improvements and international competitiveness of those firms. "Línea 400" offers lower interest rates (~12%) compared to the average market rates (~25%) making it affordable to smaller firms. In addition, the line of credit also funds purchases of used machinery up to 70% of the principal. (Banco de la Nación 2008; Blanco 2008, 2.)

Leasing was also in the interests of Mr. Vera. BNA offers standard leasing with basic terms and a purchase option of 5%. Also Banco Francés offers leasing services, especially for forestry machinery, with the exception that used machinery is not financed by the bank. Out of all the leasing contracts, Banco Francés offers the most attractive one with the Maxi Canon leasing: with a larger initial down payment the lessee can shorten the burden and thus also diminish the interest payments in monetary terms. Also HSBC provides leasing services, but only to companies that do not operate in the forestry sector. In this framework, Inderfor could buy the equipment and further resell or sublease it to Mr. Vera, but this option needs further analysis and evaluation to secure its profitability. In this case, the import of used machinery places restrictions on this specific option, as the Argentinean customs places a 2-year resale restriction on imported used machinery.

In general, leasing offers some benefits opposed to the traditional debt financing. The main benefit shows in the financial statements as the periodic payments do not show as debt and they are deductible from the income tax; in addition, also cash flow improves. Leasing contracts usually also do not have effects on credit limits in the

banking system. On the other hand, leasing usually ends up being a more expensive option. Leasing is a beneficial contract if the lessee is interested in only *using* the machinery and not *owning* one, or for a company where the technology obsoletes fast and equipment renewal is constant. After the lease period, the lessee is not entitled to the remaining residual value of the machinery: the equipment is either sold further, the lessee can purchase the machinery for additional payments or a restructuring of the lease can be negotiated. (Banco Francés 2008; Banco de la Nación 2008.)

Mr. Vera opted to finance the purchase of the new harvester head through his current bank, Banco de la Nación. “Línea 400” terminated being the most profitable and viable solution for Mr. Vera in this situation. More specifically, Mr. Vera will finance the purchase and import the *used* machinery on his behalf. The acquired loan is applied to the *new* machinery. Furthermore, in this case Inderfor will import the new machinery to port in Argentina, and further sell the harvester head to Mr. Vera. BNA will then pay the invoices to Inderfor, who further performs the payment to the Finnish manufacturer. Although the transaction seems rather complicated, it is the best operation for this case. (Rodriguez 2008b.) At the moment, the machinery is being prepared in Finland, waiting for the transaction to take place. An employee of Mr. Vera is currently in Finland receiving a 30-day training on the operational technicalities of the harvester base and the harvester head to be able to utilize the machinery in the future. The combination is projected to reach Argentina in a few weeks, and begin operating as soon as possible.

6.2 Sawmill

The sawmill study case focuses on presenting the financing solution for import of a sawmill from Finland to Argentina, and evaluating the impacts of such solution. The Finnish manufacturer (due to confidentiality issues the company will not be further presented) is implementing a strategy of expansion in Latin America and wanted to provide the Argentinean buyer with a financed payment period instead of demanding full pre-export payment.

The Argentinean client recently visited the sawmill factory in Finland to witness how the machinery operates in practice. The Finance Director of the Finnish seller mentions that this type of machinery requires a big investment; furthermore, prices

can range between EUR800.000 to EUR1.000.000. In order to operate properly, and in addition to buying just the actual sawmill, the implementing company needs to invest on a bigger scale, and not only by one, but many different types of additional machinery, not to mention investing in training and other operational costs. Moreover, even if the Finnish company sold the equipment for a less expensive price, the overall investment may collapse due to high project costs: the investment needs to be carefully analyzed and feasibility investigated or the Finnish machinery might not get bought despite of the initial plans. The sawmill itself is a part, although an essential one, of a larger project.

Due to high investment costs the Argentinean buyer has paid attention to the financing solutions. In this case, similar to the cases of forestry machinery purchase in general, Brazilian equipment is attractive to the Argentinean buyer due to less expensive costs and shorter delivery times. The buyer originally visited the Finnish factory in order to decide between the Finnish and a Brazilian sawmill. In addition to just deciding on technology, the buyer has also been offered competitive financing from the Brazilian vendor. Moreover, providing advantageous financing solutions for the buyer can become a strategic and a competitive asset for the machinery manufacturers. (Rodriguez 2008b.)

The Finnish case company is expanding their business in Latin America. According to the Finance Director, the company has made a few sales in the area, but the more market share they can conquest, the easier it is to obtain brand awareness and thus increase sales. To match the strategy with tactics, the sawmill manufacturer has now offered a financing option for the possible Argentinean client. It is a scenario they are willing to apply for a few cases, but not let it become a standard practice for their Latin American sales operations. Normally they suggest their global clients to search for local financing, mainly through leasing contracts: this further allows the Finnish company to collateralize the lease through a buy-back contract allowing the buyer with more flexible terms. Moreover, the buy-back agreement can either directly serve as collateral for the purchase, or reduce additional needs for collateral.

The actual financing solution offered to the Argentinean buyer matches their expansion strategies in Latin America. The Finnish manufacturer wanted to grant longer maturity and repayment schedule for the Argentinean buyer. Basically, when the buyer decides to purchase the machinery, a 30% up-front down payment is in

order. The interesting part in this case is that, although the Argentinean operator has sound equity and transparent accounting operations, they could not obtain viable financing options in Argentina: the Finnish seller decided to volunteer and offer financing for the remaining 70% of the purchase. The company solicited for a bank loan in Finland, which will cover the Argentinean buyer's purchase for the repayment schedule period. The maturity for the financing is 3.5 years, and an interest rate of 7% is offered to the Argentinean buyer: this means competitive terms for the buyer, and also the seller profits from the operation with about 1-2%. The periodic repayments are calculated on the German method (equal installments) so that the interest rate is variable although the periodic payments remain the same: in the beginning interest proportion is higher and the principal less, and as more payments are made the interest lowers and principal rises correspondingly.

The Finnish manufacturer is aware of the higher risks involved in this operation. Should the Argentinean buyer not comply with the periodic payments for any reason, the seller bears the risks up to the point of having to recover the machinery from Argentina, bringing further complications to the situation. However, the buyer has a great necessity for the machinery fast, and the buyer company will shortly decide between the Finnish and the Brazilian supplier.

Taking into consideration any type of Inderfor client case, this sort of financial solution has the most positive impacts. Whereas Argentinean financial institutions require extensive documentation, collaterals and guarantees, and high interest rates, obtaining a loan from a Finnish institution is not as complicated: furthermore, as in this case, providing clients with a viable financing solution can become a strategic tool and a minor source of income through demanding slightly higher interest rates from the buyer. As higher risks are involved in this type of scenario, the goodwill of the seller is an essential factor and places a higher dependence relationship between the negotiating parties.

6.3 Pellet Plant Project

Bioenergy is a rather new form of energy production almost in all of Latin America. Even more so, pellet production and the use of pellets is scarce, but on the rise. Part of the slow adaptation of pellets is the low number of pellet plants in South America, and especially Argentina. To that end, the technology for efficient pellet production on a national level is almost non-existent: the price for adequate technology is rather unaffordable for the Argentinean buyer. (Rodriguez 2008c.)

Prices for pellet plants range from approximately EUR150.000 to EUR 1 million. Moreover, the investment requires plenty of investigation and evaluation, not only from a financial perspective, but from technical, practical and environmental point of view. (Rodriguez 2008c.) Bioenergy, however, is something that is seen as a future business, and for example, the Ministry of Science, Technology and Innovation of Argentina has an ongoing financial incentive, called Biotech, together with the rest of the Mercosur countries (Argentina, Brazil, Uruguay, Paraguay) and the EU to promote R&D activities and commercial cooperation between the regions and across different business sectors and actors. The main objectives of the program are to create a common platform for the development and utilization of biotech technology applications in Mercosur, by thus increasing the competitiveness of the sector in international markets. Although the deadline for the public call for the Biotech program subsidy already passed for the year 2008, this is a good co-financing incentive to keep in mind for the future. (Biotech 2008.)

This case study differs greatly from the previous ones, and in general from the common client cases of Inderfor. In fact has a wider range of financing possibilities than any of the previous cases. A Finnish pellet plant manufacturer is analyzing the option of installing various pellet plants in Argentina and possibly in Uruguay. Furthermore, the Finnish company is the main solicitor of financing for this project, and also acts as the main implementer and associate for the operation. This situation opens up the option of utilizing the services provided by the Finnish financing institutions, and to some extent, if so wished, services provided by international and/or Argentinean financing institutions. (Rodriguez 2008b.)

As this project can have major implications commercially, environmentally and even socially, many institutions are interested in this type of pilot project. More

specifically, the Finnish company has already had initial negotiations regarding the financing for the project with Finnfund. This specific project with Argentina furthermore, is a part of a larger strategy to invest in bioenergy within South America, and eventually would also include purchasing some of the fabricated pellet production to Finland and possibly other Nordic countries. Moreover, in the long run the project is prospected to have positive ramifications in both regions. (Rodriguez 2008c.)

With regards to the financing solution, the most likely form of financing for this scale of project is equity funding. The type of scenario for the case would include Finnfund financing for a third part of the total project, the Finnish company being responsible for another third part, and the remaining third part would be left for the Argentinean counterpart(s) to finance. Finnfund's equity financing, or minority shareholding means that investments by Finnfund are made directly into the project company, so that Finnfund's part does not exceed 30% share: equity financing is meant to strengthen the company for the initial phase of the project and Finnfund usually abandons its share within a few years. (Finnfund Brochure 2008).

On the other hand, the Argentinean part of financing is another challenge. The Finnish company instead of investing in one bigger plant wishes to research the viability of installing a few smaller plants. This scenario can lessen the burden that the Argentinean investors need to bear, however, the problem of accessing credit is still a problem. The fact that 60% of the project is financed by Finnish sources can significantly facilitate the access to credit and financing for the Argentinean operators, though. Furthermore, the FONTAR subsidies, although small in quantity, can work as a profitable form of financing for these projects, not to forget the initiatives offered by the Biotech program. The pellet plant project however, is not a current priority for the Finnish company, but an ongoing investigation on its feasibility. Furthermore, when the financing negotiations in Finland are terminated, and the final form of the project is decided upon, I suggest the public financing options in Argentina be revised and applied for – the sooner the better however, to avoid strict time constraints and other practicalities.

In addition, the services by Finnpartnership can play a big role for the Finnish company, as they can offer additional complementary services to Finnfund's financing, such as advisory services, partnership location and some additional financing for additional costs incurred related to the project.

7 CONCLUSIONS AND FUTURE DISCUSSIONS

The intention of the thesis was to provide a scan over different financial organizations and the services they offer in order for Inderfor to keep up to date with the current financial markets all in Argentina, Finland and to some extent internationally. More specifically, the three study cases presented different financing scenarios basing on current projects of Inderfor's business partners. In addition, a framework for the situations was provided by presenting some current issues in the forest industry and the financial markets.

The main obstacle for Inderfor's growth currently is the poor access to credit in Argentina. Possible clients have to suspend their investments when they cannot access external financing, or alternatively they turn to less expensive yet short-term products. Moreover, in the framework of this thesis, I intended to provide Inderfor with detailed information on the existing financing options so that also Inderfor's clients would be informed and further gain advantage of my findings. By taking use of the information provided in this thesis, the party soliciting financing ideally becomes more informed on the existing options to be able to compare different solutions, and further help the customers search for additional information. Furthermore, along with this thesis, I hope Inderfor will be able to better advise their possible business partners when it comes to financing their purchases.

The constraints of this thesis, however, are a couple. The information presented in the chapters 3, 4 and 5 is not absolute. Although the information I have provided is currently accurate, it has to be taken into account that the services offered by the different financing institutions can alter greatly: the terms and prices are tied to market fluctuations. Such detailed information as interest rates, other contract terms and services provided by the different institutions can change in a short period of time, and depending on the variables at hand in each case. Moreover, the information presented throughout the thesis is intended to give orientation and direction to be able to compare the game of offering, not to be considered as binding terms for each institution. Furthermore, each company soliciting financing should contact the corresponding financing institutions well in advance to be able negotiate profitable terms; each situation needs a unique and case-specific solution.

It is a significant factor that the changes in the global markets have direct and immediate effects on the financial sector. Along with the American subprime crisis, the entire worldwide banking and financial market is going through a turbulence phase, even more so a possible recession. As it is impossible to predict the effects of the crisis, and the changes it brings along, the future will show how the markets change: most likely, and unfortunately, the information and options provided in the thesis will lose significance in the short and medium term. However, it does not suffice to contemplate the effects on the financial markets, but also the effects on global business in all of its aspects. To that end, another issue that does not seem promising at the moment either, is the poor situation of the forest industry in Finland. Many of the biggest operators are moving production to more profitable locations, and the changes in taxing procedures for forest owners have brought up commotion. These two circumstances combined do not indicate a positive future in the short and medium term – although the challenges of the forestry industry in Finland could be turned into an opportunity in Latin America.

While the demand for wood products is increasing globally, and the forest industry in general is gaining ground in Latin America, Argentina is staying behind on the development. The country has vast areas of raw material, excellent growth conditions for the forests and even some national financial incentives to plant woods. However, when it comes to taking advantage of these assets, problems arise. The mechanization of the forest industry in Argentina has begun only recently, thus opening a market for the foreign machinery manufacturers. Although the trend among the forestry operators is to mechanize and to modernize their technology, the financial markets do not offer sufficient support to backup the trend. Whereas Finland offers multiple types of public services to foster the internalization and economic growth of the local SMEs and other firms, the Argentinean counterpart does not suffice to cover the demand for financing. The public sector does not yet ease, let alone remove, the problems of accessing credit in Argentina.

The Argentinean Technology Fund FONTAR offers multiple types of services and financial aid mostly for SMEs with technology modernization and innovation projects, yet it still holds many challenges, such as small amounts of financing offered, high levels of bureaucracy and little existing information on project selection criteria. Leaving aside the bureaucracy involved, and although FONTAR has been functioning for almost 15 years, it seems that funds do not reach the companies that most need

them: from the public point of view, the Argentinean financial market is underdeveloped and FONTAR is one of the only acknowledged financing options. Whereas the Argentinean public institutions essentially fail to meet the financial demand or even complement the commercial financing market, Finland offers extensive services for Finnish companies. Finnvera, Finnfund and finally Finnpartnership have a wide range of financial services, but unfortunately do not directly offer financing to foreign buyers. Finnvera, for example, can offer guarantees to cover the Finnish buyer from risks arising in international trade, which on its behalf can increase the Finnish manufacturers' willingness to cooperate with the Argentinean buyers and cope with the risks involved. In addition, Finnfund can fund larger projects in developing countries when a major Finnish interest is included, and further, Finnpartnership can cover additional costs arising from such projects e.g. pre-feasibility study costs, partnership location costs etc. However, it is unlikely that these institutions finance mere imports for the Argentinean buyer; this is where the Argentinean financial market should take responsibility, and considering the framework, FONTAR is a viable financing option for the Argentinean buyer.

The banking sector in Argentina has faced multiple crises, one of them in the short-term memory of the Argentineans. In the light of the possible global recession, Argentina is to experience the effects sooner or later. The peso has little value on the international markets, and even within Argentina due to high inflation, and the entire economy tends to still be vastly tied to the US dollar – the fluctuations of the dollar and the American market have a rather direct effect on Argentina. The banking sector, both private and public, is being careful about to whom grant loans, and on what grounds. Argentina in general is a very bureaucratic country, and the culture is to require massive amounts of documentation for all official transactions and operations, but especially the banks have adopted this as their major method for risk management alongside with demanding tangible collateral to pledge or some other guarantee of payment. Whereas Peltoniemi (2007) discusses the problems of asymmetric information being an obstacle for banks in Finland when assessing the risks of a project or the credit worthiness of a company in Finland, in Argentina the roles seem to be reversed, especially with regards to SMEs. Although the moral hazard risks in Argentina are greater than in Finland, the Argentinean banks, especially private, seem to use the asymmetric information to their advantage: the banks provide little or no information on the pricing of their services, unless the party soliciting financing is a

client. This essentially makes it impossible for a company to compare the services provided by different institutions, and so the companies have to choose their banks and services based on other, less rational factors. Moreover, information is a power tool used by the banks, not *for* but *against* their clients. This factor partially contributed to the results of this thesis as I was not able to gather extensive or profound information on the services the banks provide in Argentina.

The Argentinean financial market comprises of multiple different banks, many of them international. Public banks on the other hand play a big role, and most of them have a special role to focus on the competitiveness of the country's SMEs. For many consecutive years, Banco de la Nación has been the number one bank in Argentina based on various different ranking methods – only comparing BNA's services to those of one international bank, BBVA Banco Francés, the role of the public banks seems to be accurate. BNA offers more attractive contract terms in some lines of credit, especially for SMEs, than does Banco Francés. In addition, BNA has extensive experience also in the global business market and they offer a wide range of services for international financing. On the other hand, as BNA focuses largely on the agricultural sector, Banco Francés is beginning to realize the importance of the forestry sector and has established a special section for forestry financing in the northern, forest-abundant provinces. A major difference between these two banks, and an important factor for Inderfor and the clients, is that Banco Francés does not finance used machinery. BNA, however, does finance purchases for used machinery, although with less attractive terms.

With regards to the financing in general, the most attractive situation for the Argentinean buyer is when the Finnish seller volunteers to provide the buyer with extended payment period. In most cases, to reduce risks, the Finnish manufacturers require a down payment of 50% at order and the remaining 50% at export. With these contract terms, when accessing credit is difficult, the buyer is prone to choose more accessible options. On the other hand, should the seller assume more risks with regards to repayment, the Argentinean seller would become more interested. In case study 6.2 "Sawmill", the Finnish seller was willing to provide the buyer with a payment period of approximately 3.5 years instead of the full pre-export payment. The Finnish seller finances the payment period by a loan from a Finnish bank, and further charges the accumulated costs by the Argentinean buyer: even with this method the annual interest rate reduces approximately 75% comparing to the rates offered by the

average Argentinean bank. In the sawmill case, however, this financial strategy by the Finnish manufacturer results from the company's overall expansion strategy in Latin America, but still is a strategy they wish not to utilize so that it becomes a standard practice. Although riskier, this method could increase the sales of Finnish forestry machinery in Argentina, and undoubtedly is the most viable and profitable financing option for the Argentinean buyer.

With respect to the Pellet Plant Project in chapter 6.3, the Finnish financing institutions play a large role. Initial negotiations with Finnfund have taken place, but the project requires vast studies on feasibility, environmental effects, profitability and other factors: the process is time-consuming. Finding the correct financing method is essential, but a lengthy process. On the other hand, this specific project is not a major priority for the Finnish company at the moment, thus lengthy evaluation is not an obstacle. When the project is about to take place, I suggest also FONTAR's options be analyzed again in terms of co-financing the Argentinean companies. The subsidies (ANR) for this type of project are a viable form of financing, and more importantly, the project is very eligible to meet the FONTAR requirements. As the Pellet Plant Project and the Sawmill case were not concluded by the termination of this thesis, it is unfortunate that I was not able to further analyze the results of these cases, and the viability of the solutions as they represent a more unconventional financing method regarding Inderfor's customer cases. Should they be a success, further analysis could be conducted to evaluate the profitability of continuing to promote financing acquired from Finland among Inderfor's Finnish business partners.

Further to add to the constraints of the thesis are the methodological problems. In the aftermath of the thesis, it would have been interesting and beneficial to have cooperated more closely with Inderfor's business partners, especially regarding the study cases. I learned the most, and could take the most advantage of the Harvester Head case study, because the buyer explicitly and in detail told me all the factors behind his reasoning. In addition, I was able to find more accurate solutions for the purchase due to being well informed. As mentioned, finding accurate, relevant and very importantly, *up-to-date* information in Argentina is a challenge. Information published by the government does not always indicate the situation in real life, but rather idealizes "the truth". A good example of this are the inflation figures that differ significantly comparing the official information to that published by the private investigations. Furthermore, many of my sources for the more theoretical background

section include investigation and articles from more international and – if one could say – rather impartial, sources and organizations. In addition, finding just basic information can be difficult and time-consuming in Argentina: this, apart from being a constraint only in my thesis, can be a partial reason to why companies are not always well informed on the different financial solutions or institutions. All in all, my attempt was to provide broad yet relevant data, but due to the informational constraints, this was not an exhaustive investigation: more options and institutions – or better data – exist.

One of the biggest surprises during the thesis process to me personally, was the lack of commercial financing solutions for companies in Argentina, and even more so, the small number of commercial financing houses compared to the banking sector. Most of the existing financing houses, even world class companies such as GE Money, only offer small loans for private consumers. Financing houses oriented towards the business sector only offer leasing services or factoring – the commercial financing companies do not seem to compete with the lending services offered by banks, but target their services to niche markets, with a very limited range of services.

One of the reasons why the Argentinean forestry operator tends to choose Brazilian machinery instead of Finnish, is the long delivery times. In fact, a major competitor to the Finnish manufacturing companies seems to be the Brazilian manufacturers simply because they are physically closer, and offer less expensive equipment. To that end, and for future development and investigation, supplier managed inventory could be good option to consider. If there were an inventory of forestry machinery in Argentina – managed by the Finnish vendors or alternatively by Inderfor – the buyers could become more prone to opt for the equipment that is more available. In addition, being able to physically see and examine the machinery to be bought, is generally more attractive and gives a feel of trust against investing in a purchase made based on mere documentation and photos. Supplier managed inventory in Argentina is a suggestion for future improvements, moreover, the costs and feasibility of such inventory would have to be further examined.

As to the objectives and results of the thesis, it was challenging to find specific, non-general solutions that fit Inderfor's and their clients' operating environment. However, I hope Inderfor will be able to utilize and take advantage of my thesis for future client cases as well, and not only the study cases presented jointly with the thesis. Although

the information provided on the different financial institutions does not outlay absolute results on the viability or profitability of the different solutions, the objective of presenting different financial solutions in the Argentinean, Finnish and international markets was met. In addition, solutions for specific client cases was searched for, and implemented. However, it can be concluded for future reference that, for each case a proper analysis of different and varying financing options needs to be conducted – but a general awareness of the existing institutions and the financing alternatives is essential to facilitate and shorten the process. I wish this thesis has met its utility objective to contribute to the both results, but especially to the latter.

What comes to my personal and professional learning, I have gained a lot from this thesis process. First of all, I am now better equipped to perform further business studies and investigations. Secondly, along the process I learned a lot more about the Argentinean and Finnish financial markets, and even to some extent of the forestry industry. Last but not least, financial studies have honestly not been on the top of my list, but through the thesis I had an opportunity to familiarize myself with the area. I found that financial markets are interesting, especially from a developmental and environmental point of view, and even more so, that financing solutions are a key resource for efficient commerce. More importantly, I learned to understand more about the financial markets, the terminology and the different transactions involved in international trade. It is fascinating, and in some cases unfortunate, to see how great an influence financing can have on business. Moreover, excellent financial solutions can enable and significantly improve business, whereas lack of knowledge or the inability to find suitable financial solutions can restrain growth.

Undoubtedly, the number one competitor for the Finnish forest machinery manufacturers in the Argentinean market is the financial market and the constraints it holds. Simply to sum up, the financial solutions for each customer case are, and will be, multiple and need to be considered on a case-by-case basis. No one solution is better than the other, and a solution that fits one specific case may not be applicable for another. More importantly, it is essential to analyze the service offering of different institutions and keep up-to-date with the changes. A constant evaluation will undoubtedly bring new and better solutions, in effect, foster growth and give rise to new opportunities.

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APPENDIX 1. Documents for credit status analysis required by Banco Francés.
Modified from Bompadre 2008.

Documentation required from companies for credit worthiness analysis:

- Basic company information
- Share composition.
- Management.
- Activity.
- Principal clients and suppliers.
- Monthly sales as to the last two Balance Sheets and possible post-balance sheet sales.
- Last two declarations on Income Tax.
- Financial position: i.e. credits per sales, commercial and bank debts etc.
- Detailed information on possible bank debts: bank, line of credit, maturities, granted amount indicating the utilized amount of credit up to date.
- Last 6 affidavits (declaraciones juradas) of VAT.
- Last 6 affidavits (declaraciones juradas) of social security payments (Aportes previsionales). .
- Declaration of assets.
- Projected Cash Flow.

Documentation required from individuals for credit worthiness analysis:

- Basic information on commercial activity: start-up phase, history of operations in the sector, activity, principal clients and suppliers.
- Last two declarations on Income Tax with respective paper work.
- Financial position: i.e. credits per sales, commercial and bank debts etc.
- Monthly sales from the last two and a half years.
- Detailed information on possible bank debts: bank, line of credit, maturities, granted amount indicating the utilized amount of credit up to date.
- Last 3 affidavits (declaraciones juradas) of VAT.
- Last 3 affidavits (declaraciones juradas) of social security payments (Aportes previsionales). .
- Declaration of assets.
- Projected Cash Flow.

ANALYSIS OF FINANCING OPTIONS - HARVESTER HEAD								
ORGANIZATION	OPTION	TYPE	AMOUNTS	AMORTIZATION	GRACE PERIOD	INTEREST RATE	REQUIREMENTS	ADDITIONAL
FONTAR	CAE I	Credit	Up to 600.000ARS, max. 80% of total cost	max. 9 years	4 years	-	acquisition of new capital goods, a minimum of 10% of intangibles	Credit granted through a bank
	ARTICULO 2	Credit	Up to 600.000ARS	up to 12 bi-annual quotas	4 years	4,25% *	guarantee or collateral, low technical risk	Credit granted through a bank
BNA	Línea 400	Credit	new goods: 100% used goods: 70%	up tp 10 years, "sistema Alemán"	6 months after last disbursement	5 years fixed (12%)*, after	-	Line of credit viable until 31.12.08, ARS
	LEASING	Leasing	100%	In pesos, variable maturities, "sistema Francés"	-	Badlar rate of 30 days of BCRA (informed online)	2 year of operating history in forestry sector, without negative financial/credit	Purchase option: 5%
BANCO FRANCES	Only finance purchase of new goods. Purchasing only a harvester head not possible: has to be the total combination of new head/harvester base machine							
	LEASING	Leasing	100%	approx. 36 months , "sistema Francés"	-	18-24% ***	-	Commission (1,25%), Purchase
	MAXI CANON	Leasing	100% - the prepaid amount	approx. 36 months , "sistema Francés"	-	18-24% ***	-	Commission (1,25%), Purchase
HSBC	Does not collaborate with forestry sector directly - leasing applicable for Inderfor, who could then sublease the machinery							
	LEASING	Leasing	90-100%	12-48 months	-	flexible rate	NON-forestry company	Purchase option: 3%
	*	with correspondance to the "Minimum Bid Rate" of the European Central Bank: 4,25% effective since 8.7.2008						
	**	Total Financial Cost 13,50%						
	***	Adjusted to the credit status analysis of the soliciting company						

APPENDIX 2. Continued

To access FONTAR financing	
Banco Bapro	
Banco Comafi S.A.	Banco de Santa Cruz
Banco Credicoop Cooperativo Limitado	Banco Finansur S.A
Banco de Galicia y Buenos Aires S.A.	Banco Regional de Cuyo.
Banco de Inversión y Comercio Exterior S.A.	Banco Río de la Plata S.A.
Banco de la Nación Argentina	BBVA Banco Francés S.A.
Banco de La Pampa SEM.	Nuevo Banco de Entre Ríos.
Banco de la Provincia de Córdoba	Nuevo Banco de Santa Fe
Banco de la Provincia de Buenos Aires	Nuevo Banco del Chaco.
Banco de San Juan.	Nuevo Banco Industrial de Azul S.A.

Applications can be made to the bank by Carta de Consulta Prévia or directly to FONTAR by Presentación Idea Proyecto:

Address	Avda. Córdoba 831 Piso 5 (C1054AAH) - Ciudad de Buenos Aires
Tel.	(011) 4311-5690/5391
e-mail	fontar@agencia.secyt.gov.ar

EXAMPLES:

EJEMPLO 1*					
Banco Credicoop - CAE					
Aporte máximo	Periodo de gracia	Amortización	Periodo de Ejecucion	Interés	Garantías
\$1.000.000, hasta 80% del total	12 meses	48 meses, periodo de gracia incluido	12 meses	~8.45%, sistema Alemán	real, 150% del monto financiado
EJEMPLO 2*					
Banco de la Nación - CAE					
Aporte máximo	Periodo de gracia	Amortización	Periodo de Ejecucion	Interés	Garantías
\$1.000.000, hasta 80% del total	24 meses	48 meses, al terminar el periodo de gracia	24 meses	~8%, sistema Francés	real, 200% del monto financiado, pueden ser tercerizados
EJEMPLO 3*					
Banco Bapro - CAE					
Aporte máximo	Periodo de gracia	Amortización	Periodo de Ejecucion	Interés	Garantías
u\$d 200.000, hasta 75% del total	48 meses	60 meses al terminar el periodo de gracia	36 meses	~8%, sistema Francés	real, 167% del monto financiado
NOTA: Fuente de información: INTA (http://www.inta.gov.ar/extension/finan/datos/fontar.htm)					
Intereses y condiciones deben ser actualizados y consultados, garantías a satisfacción del banco					
Sistema Alemán:	amortización del capital constante, interés variable decreciente				
Sistema Francés:	cuota fijo; capital creciente, interés decreciente				

APPENDIX 3. Pre-feasibility study for Pellet Plant case study. Modified from information provided by Inderfor S.A.

PROJECT: WOOD PELLET PRODUCTION PRE-STUDY on the Production, Economic and Commercial Feasibility INDERFOR OY -SOUTH AMERICA -						
Summary of Costs	Year 1	Year 2	Year 3	Year 4	Year 5	
Raw Material	288.000 USD	311.040 USD	335.923 USD	362.797 USD	391.821 USD	
Energy Consumption	270.605 USD	292.253 USD	315.633 USD	340.884 USD	368.155 USD	
Fuel	3.456 USD	3.732 USD	4.031 USD	4.354 USD	4.702 USD	
Salaries	95.901 USD	103.573 USD	111.859 USD	120.808 USD	130.472 USD	
Equipment Maintenance	72.000 USD	77.760 USD	83.981 USD	90.699 USD	97.955 USD	
Production and Trading	36.000 USD	38.880 USD	41.990 USD	45.350 USD	48.978 USD	
Other Variables	24.000 USD	25.920 USD	27.994 USD	30.233 USD	32.652 USD	
TOTAL COSTS	789.962 USD	853.159 USD	921.411 USD	995.124 USD	1.074.734 USD	
Entire Calculation is based on 145 €/Ton C&F Rotterdam Port						
Expected Income	Year 1	Year 2	Year 3	Year 4	Year 5	
Annual Wood Pellet Production (ton)	14400 Tn	14400 Tn	14400 Tn	14400 Tn	14400 Tn	
Price C&F Rotterdam (ton)	€ 145,00	€ 147,90	€ 150,86	€ 153,88	€ 156,95	
Price EX-WORKS Pellet Plant (ton)	78,00 USD/tn	79,56 USD/tn	81,15 USD/tn	82,77 USD/tn	84,43 USD/tn	
	Price at Rotterdam per ton for first year. Then it increases by 2% every year					
TOTAL INCOME	1.123.195 USD	1.145.659 USD	1.168.572 USD	1.191.944 USD	1.215.783 USD	
Business Summary	Year 1	Year 2	Year 3	Year 4	Year 5	
Gross Income	1.123.195 USD	1.145.659 USD	1.168.572 USD	1.191.944 USD	1.215.783 USD	
Variable and Fixed Costs	789.962 USD	853.159 USD	921.411 USD	995.124 USD	1.074.734 USD	
Depreciation and Money Costs	166.774 USD	158.699 USD	150.624 USD	142.549 USD	134.474 USD	
Gross Margin (previous on income tax)	166.460 USD	133.802 USD	96.537 USD	54.270 USD	6.574 USD	
% of Income Tax in Argentina	35%	35%	35%	35%	35%	
Amount to be paid on income tax	58.261 USD	46.831 USD	33.788 USD	18.995 USD	2.301 USD	
NET INCOME PER YEAR	108.199 USD	86.971 USD	62.749 USD	35.276 USD	4.273 USD	
RETURN ON THE INVESTMENT (YEARS)	4,86					